

THE OFFICE OF REGULATORY STAFF

DIRECT TESTIMONY

OF

DR. DOUGLAS H. CARLISLE

AUGUST 17, 2011



DOCKET NO. 2011-47-WS

Application of Carolina Water Service, Incorporated for
Approval of an Increase in Its Rates for Water and Sewer
Services Provided to All of Its Service Areas in South
Carolina

DIRECT TESTIMONY OF DR. DOUGLAS H. CARLISLE**FOR****THE OFFICE OF REGULATORY STAFF****DOCKET NO. 2011-47-WS****IN RE: APPLICATION OF CAROLINA WATER SERVICE, INCORPORATED FOR
APPROVAL OF AN INCREASE IN ITS RATES FOR WATER AND SEWER
SERVICES PROVIDED TO ALL OF ITS SERVICE AREAS IN SOUTH CAROLINA**

Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS ADDRESS.

A. My name is Dr. Douglas H. Carlisle, Jr. I am an Economist at the South Carolina Office of Regulatory Staff ("ORS"). My business address is 1401 Main Street, Suite 900, Columbia, South Carolina 29201.

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND YOUR PROFESSIONAL EXPERIENCE.

A. I received a Bachelor of Arts from Brown University, a Masters Degree in Public Administration from the University of Virginia, and a Ph.D. in Government and International Relations also from the University of Virginia. After graduate school, I worked as an evaluator and evaluator-in-charge for 7½ years at the United States Government Accountability Office in Washington, D.C. Afterwards I worked as a market consultant and instructor at Midlands Technical College in South Carolina. I began work for the State of South Carolina at the State Reorganization Commission, which functioned as an audit follow-up entity. I was next employed by the South Carolina House Education & Public Works Committee. Before joining ORS, I worked five years for the State Chief Economist as an analyst in the Economic Research Section,

1 which serves as an adjunct to the Board of Economic Advisors. I assumed my current
2 position at ORS in March of 2005. I am a Certified Rate of Return Analyst and a
3 member of the board of the Society of Utility Regulatory Financial Analysts. I have
4 previously testified before this Commission concerning rate of return.

5 **Q. WHAT IS THE MISSION OF THE OFFICE OF REGULATORY STAFF?**

6 **A.** The mission of ORS is to represent the public interest in all proceedings before
7 the Public Service Commission by balancing: the concerns of the using and consuming
8 public; the preservation of the financial integrity of the state's public utilities; and
9 economic development and job attraction and retention in South Carolina.

10 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY AND EXHIBITS IN THIS**
11 **PROCEEDING?**

12 **A.** The purpose of my testimony and exhibits in this proceeding is to recommend the
13 appropriate range for return on equity for Carolina Water Service, Inc. ("CWS" or "the
14 Company").

15 **Q. WHAT STANDARDS GOVERN RATE OF RETURN?**

16 **A.** The Supreme Court of the United States set standards in two landmark decisions.
17 In the first case, Bluefield Water Works Improvement Co. v. Public Serv. Comm'n, the
18 Court declared:

19 *A public utility is entitled to such rates as will permit it to earn a*
20 *return on the value of the property which it employs for the*
21 *convenience of the public equal to that generally being made at the*
22 *same time and in the same general part of the country on*
23 *investments in other business undertakings which are attended by*
24 *corresponding risks and uncertainties; but it has no constitutional*
25 *right to profits such as are realized or anticipated in highly*
26 *profitable or speculative ventures. The return should be*
27 *reasonably sufficient to assure confidence in the financial*
28 *soundness of the utility and should be adequate, under efficient*

1 *and economical management, to maintain and support its credit*
2 *and enable it to raise money for the proper discharge of its duties.*¹
3

4 The Court's opinion in *Bluefield* was later reinforced by the decision in another
5 case, Federal Power Commission v. Hope Natural Gas Company:

6 *[T]he fixing of "just and reasonable" rates, involves a balancing*
7 *of the investor and consumer interests.... From the investor or*
8 *company point of view it is important that there be enough revenue*
9 *not only for operating expenses but also for the capital cost of the*
10 *business. These include service on the debt and dividends on the*
11 *stock..... By that standard the return to the equity owner should be*
12 *commensurate with returns on investments in other enterprises*
13 *having corresponding risks. That return, moreover, should be*
14 *sufficient to assure confidence in the financial integrity of the*
15 *enterprise, so as to maintain its credit and attract capital.*²
16

17 Decades later in the Permian Basin Area Rate Cases, the Supreme Court provided
18 additional guidance to regulators by stressing that factors other than producers' costs are
19 important in the regulation of public utilities and that therefore, regulation may
20 reasonably "limit stringently the return recovered on investment," so long as the effect is
21 not to destroy the utility.

22 **Q. DOES CAROLINA WATER SERVICE, INC. HAVE TRADED COMMON**
23 **STOCK?**

24 **A.** No, its stock is entirely held by Utilities, Inc. of Northbrook, Illinois, which also
25 has no publicly traded stock. Utilities, Inc. was bought by AIG Highstar's sponsored
26 fund Hydro Star, LLC, in 2006.

¹ *Bluefield Water Works & Improvement Company. v. Public Service Commission of West Virginia*, 262 U.S. 679, 692-3 (1923).

² *Federal Power Commission v. Hope Natural Gas Company*, 320 U.S. 591, 603 (1944).

1 **Q. IF NEITHER THE COMPANY NOR ITS PARENT HAS TRADED STOCK, HOW**
2 **COULD YOU PERFORM AN ANALYSIS OF THE PROPER RETURN ON**
3 **EQUITY?**

4 **A.** To complete my analysis, I examined the returns and estimated returns of
5 companies that do have publicly traded stock that are generally in the same line of
6 business as CWS. I have evaluated the return requirements of investors through three
7 well-known and generally accepted methods: the Discounted Cash Flow (“DCF”); and
8 Capital Asset Pricing (“CAP-M”) and the Comparable Earnings Method (“CEM”). I
9 have used the Company witness’ hypothetical capital structure of 50.11% Long-Term
10 Debt and 49.89 Common Equity, as it is very close to a 50-50 split.

11 **Q. WHY DO YOU NEED TO ESTIMATE A COST OF EQUITY AND**
12 **RECOMMEND A RETURN ON EQUITY FOR CWS?**

13 **A.** CWS is a monopoly and therefore does not face competition for its customers
14 from other water companies. If the Company were in a competitive industry, its return
15 on equity would be set by the competitive market for its goods and services. Since it is
16 not in a competitive industry, regulation must act as a surrogate for competition. It would
17 be unfair to allow the Company to set its own prices because it has no competition in its
18 provision of an essential service and product.

19 Water companies enjoy a special place among public utilities as they sell a
20 commodity that people consume, which is essential to life and has virtually no substitute.
21 Additionally, the average household has a minimum level of consumption of water which
22 is difficult to reduce. Water is also hard to transport, which makes its delivery from
23 alternative sources difficult. All these characteristics help underpin the monopolistic

status of water and sewerage companies and underline the need for regulation to act as a surrogate for competition.

Q. HOW DOES REGULATION ACT AS A SURROGATE?

A. Regulation must establish prices that are fair and approximate the returns of similarly situated companies, which is consistent with the *Hope* and *Bluefield* criteria cited earlier.

Q. IF REGULATED COMPANIES ARE SIMILAR, THEN WOULD THAT NOT MAKE REGULATION CIRCULAR?

A. Regulated companies tend to have monopolies or near-monopolies in their market of goods and services to customer, but they face a competitive market in trying to sell their equity. Companies' managements can affect the profitability of their companies. Moreover, utility regulation calculates appropriate returns from used and useful assets known as rate base, so the precise characteristics of each company are recognized in each rate case proceeding.

Q. PLEASE SUMMARIZE THE RESULTS OF YOUR ANALYSIS.

A. In the following testimony, I will establish my analysis context followed by a discussion of each method I employed to reach my recommended range.

Economic Background

Q. WHAT ARE THE ECONOMIC BACKGROUND FACTORS THAT YOU BELIEVE ARE CURRENTLY AFFECTING POTENTIAL INVESTORS' DECISIONS?

A. There are three: 1) the perception of risk; 2) the fear of renewed financial crisis, perhaps now spreading from abroad; and, 3) the lingering effects of the recent recession

1 and its causes. While these factor into an analysis of risk in general, I will review them
2 individually. (See Exhibit DHC-1)

3 The lingering effects from the recent recession are well known. Unemployment
4 has remained high. Economic growth, as expressed by increases in Gross Domestic
5 Product has remained low. Private and public debt remains high. There are signs of
6 improvement, but they have come slowly. Lending and money have become more
7 restrictive in response to some financial institutions' prior use of very unpredictable
8 financial instruments and fraud. These situations have led the Federal Reserve to take
9 extraordinary measures. In the midst of the slow recovery and concern about American
10 and global financing, new fears have arisen, including the debt crisis or crises in Europe,
11 the impact of Japan's earthquake and attendant events at the Fukushima nuclear plant.
12 Some analysts even question the sustainability of China's dynamism. The most
13 immediate threat looms in Europe, where whole countries' potential economic defaults
14 may spread to other members of the European Community, the European banking
15 system, the Euro currency and even, potentially, to banks in the United States. The watch
16 word for the global economy is "contagion." (See Exhibit DHC-1, p. 3 of 3)

17 Deterioration into more serious crises remains a possibility based on sheer fear,
18 rather than from the seriousness of the events themselves. Recent political events have
19 shown that investors' concerns may focus on our own country, too. The confrontation
20 over raising the debt ceiling for the United States government brought our country very
21 close to an enforced and drastic cut in spending. Another debt confrontation is possible
22 in November and December of this year and this is only one of the uncertainties hanging
23 over our nation's budgetary and monetary condition. Lingering uncertainties remain

1 surrounding the financial condition of government sponsored enterprises, the potential for
2 demographic factors to affect Social Security entitlements, and the equally daunting
3 challenge of meeting Medicare and Medicaid obligations as inflation in health care costs
4 continue to outpace general inflation.

5 Aggravating the problematic nature of our economy are the lingering effects of
6 our recent recession. Generally, the weakened state of our economy makes both private
7 and public sectors less resilient to any economic shock. Specifically, both public and
8 private debt, including household debt, will have to be reduced in a great “deleveraging.”
9 To offset the effects of the recession and of its causes rooted in opaque financial
10 instruments, the Federal Reserve Board of the United States has lowered the real interest
11 rate below zero by buying over \$1.5 trillion in government securities in order to lower
12 their rate/yield. Despite this drastic action, inflation, especially inflation without food
13 and energy, has only recently begun to rise appreciably.

14 **Q. WHAT IS THE RELEVANT PRACTICAL SIGNIFICANCE OF THE**
15 **ECONOMIC CONTEXT OF THIS CASE?**

16 **A.** There are several relevant consequences. First, although commodity inflation has
17 picked up, it may well subside. Second, several economic indicators have become less
18 predictable. Third, there is more debt or recognized debt to pay off than there was before
19 the recession. Fourth, the rate of economic growth has slowed in most economically
20 advanced countries and when it will completely recover is not readily evident. All these
21 factors result in a prospect for lower growth, moderate inflation and attendant high
22 unemployment.

Discounted Cash Flow (“DCF”) Analysis**Q. WHAT IS THE PURPOSE OF YOUR DCF ANALYSIS?**

A. The purpose of my DCF analysis is to determine the appropriate return on equity for CWS by determining what the composite return in perpetuity would be for a comparable group of companies, based on investors’ valuation of these companies’ dividend payments.

Q. DO YOU MEAN THAT COMPANIES IN THIS COMPARABLE OR PROXY GROUP WILL BE IDENTICAL TO CWS?

A. No. I have already mentioned that CWS does not have publicly traded stock, but, in point of fact, no two companies are clones. The companies in my comparable/proxy group do resemble CWS and its parent, Utilities, Inc., in the following essential respects: they are in the same business, the provision of water to customers, and, as a result, have a largely captive customer base for a product for which there are is an assured demand and no real substitutes.

Q. HOW DID YOU SELECT YOUR PROXY GROUP?

A. I used the companies listed in the Water Utility Industry of Value Line’s on-line Plus Edition. I eliminated the two companies whose businesses focus on water purification or electricity and Pennichuck Corporation, because it is in the process of merging with the water system of the City of Nashua, New Hampshire. These adjustments resulted in a proxy group of nine companies for my DCF analysis.

1 **Q. HOW DID YOU CALCULATE YOUR DCF?**

2 **A.** There are two components, dividend yield, which indicates an investor's return
3 relative to investment, and growth, which indicates future return. The best general
4 formula relating these components is:

$$K = \text{DIV}_1/P_0 + g$$

6 K is the cost of equity; DIV is the annualized dividend paid in the next period, but it can
7 be adjusted to ensure it is a typical quarter; P is the price of the investment; and, g is the
8 growth rate of the investment. The estimate of the cost of equity, however, is not as
9 simple as the formula.

10 **Q. WHAT ELSE IS INVOLVED IN THE CALCULATING THE DIVIDEND**
11 **PORTION OF THE DCF CALCULATION?**

12 **A.** The simpler part of calculating the DCF is arriving at a dividend yield. Even this
13 part poses a problem: what should be the dividend yield used? Generally, the answer to
14 this question is that the latest or "spot" yield should be used. I have departed from this
15 approach somewhat by using both a spot yield and a year-to-date average yield and
16 averaging the two for each proxy company. Although this method departs from the idea
17 that the DCF requires a single decision on an investment in perpetuity, two factors
18 suggest that yields in the very near term may be as much like the average in the first part
19 of this year as spot yields: 1) the slow recovery from recession; and 2) the flight to
20 quality (utilities) during the recession.

21 Even though, as a general statement, an investor choosing a stock should be
22 interested in the next quarter's dividend, measuring the dividend yields accurately for
23 purposes of the DCF presents difficulties. Companies have different dividend declaration

1 dates and some companies allow their dividends to fluctuate from quarter to quarter,
 2 which makes an accurate statement of a company's yield and comparison among firms
 3 harder to calculate. There is a potential undercounting, due to these factors alone, of
 4 150% over three quarters, as indicated in the following table which analyzes a
 5 hypothetical company:

Company Quarter	Quarters for which an increase would be counted	Potential Undercounting
First	4	0.0 [because $1 - \frac{4}{4} = 0$]
Second	3	0.25 ($\frac{1}{4}$) [because $1 - \frac{3}{4} = \frac{1}{4}$]
Third	2	0.50 ($\frac{1}{2}$) [because $1 - \frac{2}{4} = \frac{2}{4}$ or $\frac{1}{2}$]
Fourth	1	0.75 ($\frac{3}{4}$) [because $1 - \frac{1}{4} = \frac{3}{4}$]
Total Undercounting over Three Quarters		1.5 (0.25+0.50+0.75) [$\frac{1}{4} + \frac{2}{4} + \frac{3}{4}$]
Undercounting per Quarter		1.5/3=0.5

6
 7 If increases occur after the next known declared dividend payment, each quarter's
 8 dividend will be more undercounted going forward because dividend payments are
 9 measured on a yearly basis. A dividend increase is assumed to be at the overall growth
 10 rate "g." An increase taking place in the first quarter's dividend would be counted for
 11 that quarter and the rest of the year, but subsequent increases would be counted for only
 12 part of the remaining year. Overall there is a potential undercounting of half of the total
 13 potential increases, so each quarter could be undercounted by one-half and must be
 14 multiplied by half-again or 150% or multiply the dividend yield by $\frac{1}{2}$ or 50% and add it
 15 to the existing dividend yield as depicted in the formula below:

$$K = (DIV_1 * (1 + 0.5g)) + g$$

1 The first part of this equation is called the “adjusted dividend yield.”

2 **Q. HOW DID YOU ARRIVE AT THE GROWTH, “g,” COMPONENT FOR YOUR**
3 **DCF?**

4 **A.** The growth component generates more controversy than the dividend portion, but,
5 in the long run, dividends, earnings, book value and revenues are all indicative of future
6 growth. Investors know this, so publications and on-line data frequently feature all of
7 these statistics. Moreover, barring some dramatic technological breakthrough, it is
8 unlikely that utilities will veer from their past growth rates, which form a basis for future
9 ones. On the other hand, investors know that a mere straight-line projection from the past
10 is unlikely to provide an accurate guide to the future. Not surprisingly, information on
11 past performance and analysts’ predictions of future performance can be found in several
12 sources of data. Accordingly, I have used earnings per share (“EPS”), sales/revenue,
13 dividends per share (“DPS”) and book value per share (“BVPS”). I have taken the
14 average and the median of proxy group companies’ mean and compound growth rates for
15 three different periods and averaged the result with analysts’ estimates of future growth
16 rates.

17 **Q. WHAT DOES THE DATA DEMONSTRATE?**

18 **A.** In the longer run, historically, BVPS growth has been second highest and
19 sales/revenue growth has been the highest (Exhibits DHC-2 & DHC-6). In the most
20 recent three years, however, EPS grew more rapidly (Exhibit DHC-3, p. 2 of 3), perhaps
21 partially as a result of the longer-term growth in BVPS, and is estimated to grow faster
22 than revenues. Estimates predict that DPS growth will recover rather dramatically
23 (Exhibit DHC-4). While estimates are not certainties, by taking more than one source of

estimates this analysis aims at a consensus prediction of water company growth, which may influence investors' beliefs regarding potential returns. When combined with the adjusted dividend yield the indicated cost of equity is 9.02% (Exhibit DHC-2).

Capital Asset Pricing Model ("CAP-M") Analysis

Q. WHAT IS THE CAP-M?

A. CAP-M is a method of determining appropriate returns on equity based on the market price of capital as measured by the risk specific to a company. The Model assumes that investors can neutralize all other risk in the market by diversifying their holdings in a portfolio of companies with differing risks and returns. The remaining risk, specific to a company, is the degree to which a company's return varies from all other returns, usually measured against a stock index. The presumption that investors want to maximize returns from investments, while minimizing the risks of investing, underpins CAP-M. The general equation used in the CAP-M is:

$$K = R_f + (\beta * (R_f - R_m))$$

"K" is the cost of equity; "R_f" is the risk-free rate; and, R_m is the market rate. "β" is a measurement of company-specific risk.

Q. HOW IS COMPANY-SPECIFIC RISK MEASURED?

A. There is a measurement of a stock's return compared to that of all other stocks called "Beta" ("β"). This measurement registers how much a given stock varies compared with the rest of the market – in practice, compared with a group of stocks or stock index. The CAP-M theory includes an examination of what an investor would be able to earn on a stock, if the market risk that it had in common with the whole investment market were neutralized. Different firms that analyze stocks produce

1 different β 's for the same stock, so I selected a single firm and its β 's for consistency's
2 sake. I used the β 's provided by Value Line as they are both readily available and
3 provide a reasonable representation of what a company's risk is now and will be in the
4 foreseeable future. I averaged the β 's of all the water companies for which β was
5 available in my Proxy Group (Exhibit DHC-9). This calculation produced an average β
6 of 0.72.

7 **Q. HOW WAS MARKET RETURN MEASURED?**

8 **A.** There is a compendium of information on historical returns covering a long
9 period, from 1926 to the present, called Ibbotson SBBI 2011 Classic Yearbook: Market
10 Results for Stock, Bonds, Bills, and Inflation, 1926-2010. This publication provides the
11 long-term compounded and simple arithmetic average returns for both large and small
12 companies in the Standard & Poors ("S&P") 500 Index. The SBBI Yearbook groups
13 companies by levels of capitalization, specifically into ten groups, or deciles.
14 Periodically, during each year of data, the companies are regrouped in order to keep
15 companies in the proper 10% to which they belong. To get an average long-run return, I
16 averaged the compound growth rate of the deciles, although one can take a shortcut based
17 on the same figure, which the SBBI Yearbook provides for large companies and small
18 companies. The result is an average growth of 11.2% annually or 11% if one just
19 averages large and small companies. (Exhibit DHC-9)

20 **Q. HOW WAS THE RISK-FREE RATE OF RETURN MEASURED?**

21 **A.** I used the return for 30-Year U.S. Treasury Bonds forward looking to the furthest
22 quarter out, as report by *Blue Chip* (Exhibit DHC-11 and Exhibit DCH-12).

1 **Q. WHY DID YOU USE 30-YEAR BONDS AND WHY A PREDICTION INSTEAD**
2 **OF ACTUAL CURRENT RETURNS?**

3 **A.** Although Treasury securities with very short maturities reflect the current state of
4 the market, the degree of fluctuation in their price and yield and that of many investments
5 are highly sensitive to economic and political turmoil. Investors who determine the
6 long-run return of investments are more likely to look at returns that are long-run and
7 certainly 30 years is a long time, although not as long as the period covered by the SBBI
8 Yearbook, 1926-2010.

9 A prudent investor might look at such predictions under current economic
10 circumstances. A forward/predicted Treasury yield might makes sense during a period of
11 great economic uncertainty because, once the market can better assess risk, the true risk
12 free rate of return may be different.

13 **Q. WHY SHOULD ONE TREAT TREASURY BONDS AS RISK-FREE IN LIGHT**
14 **OF THE RECENT DOWNGRADE OF THE CREDIT OF THE UNITED STATES**
15 **GOVERNMENT?**

16 **A.** It is generally accepted that 30-year Treasury Bonds are still as close to risk-free
17 as an investor is likely to find.

18 **Q. WHAT CAP-M RETURN ON EQUITY RESULTED FROM THE CAP-M**
19 **ANALYSIS?**

20 **A.** The return on equity indicated by the CAP-M is 9.48%.

21 **Comparable Earnings Model (“CEM”) Analysis**

22 **Q. WHAT ARE THE IMPORTANT FEATURES OF THE CEM AND HOW DID**
23 **YOU APPLY THIS MODEL?**

1 **A.** One important feature of the CEM is that it has no uniform methodology but does
2 rely upon the cost of goods and services that produce earnings and, so, focuses on growth
3 in book value of non-regulated firms. Usually a CEM analysis covers a number of
4 companies or a wide span of time. My CEM analysis looks at companies with the same
5 risk as those in my Proxy Group.

6 **Q. HOW DID YOU SELECT THE COMPANIES FOR YOUR CEM ANALYSIS?**

7 **A.** I chose all companies carried by Value Line that were not in a financial sector,
8 that had β 's of no lower than the lowest Proxy Group company and no higher than the
9 highest Proxy Group company and that had not exceeded the Proxy Group's range for the
10 past five years. Additionally, I chose only those companies that had data for indicators of
11 growth and dividend yield and estimates. These criteria produced a set of 100
12 companies.

13 **Q. WHAT DATA DID YOU ANALYZE FOR THE COMPANIES CHOSEN FOR**
14 **YOUR CEM ANALYSIS?**

15 **A.** I examined estimates of future EPS, BVPS, DPS, Sales/Revenue and Dividend
16 Yield and 10-year, historical, BVPS. For comparison's sake, I also reviewed 10-year
17 EPS. To document part of the selection process, I reviewed five-year, historical, β 's.

18 **Q. WHAT WERE THE RESULTS OF YOUR ANALYSIS?**

19 **A.** The average 10-year Book Value growth for the 100 companies was 10.38% per
20 year. The average β , however, for the 100 companies is 0.757 (Exhibit DHC-10, p. 5 of
21 8, "Averages" Line), but the average for the Proxy Group companies is 0.72 (Exhibit
22 DHC-9, p 1 of 2). To see if β , a measurement of risk, had any effect on Book Value
23 growth, I weighted the results of the 100 companies so as to approximate the weight of

1 different levels of β in the Proxy Group. The result was that, if the 100 companies
2 averaged the β as the Proxy Group, the 10-year Book Value growth for the 100
3 companies would be 10.027% (Exhibit DHC-10, p. 5 of 8). This would be highest
4 interpretation of the CEM results, but there are three reasons for caution: 1) the average
5 projected Book Value growth is lower than the historical; 2) the average projected EPS is
6 lower than the historical; and, 3) the average Dividend Yield stands below that of the
7 Proxy Group (Exhibits DHC-10, p. 5 of 8 and DHC-8).

8 The Dividend Growth Rate helps delve a little further into the significance of
9 Dividend Yields, usually outside a CEM analysis. This growth rate is very similar to that
10 of earnings, which indicates that the yield is unlikely to catch up with that of the Proxy
11 Group companies. Lower stock prices would raise yields, but Value Line analysts
12 presumably already took this factor into consideration. To raise the forecasted dividend
13 yields up to projected levels would require diverting some earnings to dividend payout in
14 order for net earnings, as registered by book value, to be truly comparable to the water
15 companies in the Proxy Group. More sales/revenues would be required, yet their rate of
16 growth is lower than the other factors' rate.

17 I looked at companies that were excluded from the 100 because their past β 's
18 were above the Proxy Group's range. At first glance, these companies seem to have a
19 higher projected growth in book value, but, when weighted by β levels, the projected
20 growth rate drops from an unweighted 10.89% to a weighted 8.88%, while historical five-
21 year book-value growth rises from an unweighted 8.75% to a weighted 9.182%. The
22 explanation for this effect is unclear; perhaps a falling β leads to reduced growth relative

1 to the rest of the market, when the market is rising. Whatever the reason, the exclusion of
2 this group raises the projected and historical weighted rate of growth in book value.

3 **Q. WHAT DO YOU CONCLUDE IS THE APPROPRIATE RETURN ON EQUITY**
4 **INDICATED BY YOUR CEM?**

5 **A.** The maximum level indicated is about 10.03%, but, as discussed above, the
6 dynamics of historical compared to projected growth in book value and the probability
7 that some of this growth came at the expense of growth in dividends, leads me to
8 recommend that the CEM level be set lower.

9 **Summary**

10 **Q. WOULD YOU SUMMARIZE THE RESULTS OF YOUR ANALYSIS?**

11 **A.** The results of my analysis indicate of a rate of return on equity range from 9.02%
12 to 10.03%.

13 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

14 **A.** Yes it does.

The Global Economic Situation

The European Community, the United States, Japan and China produce nearly three-fifths of the world's Gross Domestic Product ("GDP"). Each of these economies is currently experiencing great uncertainty right now.

The consistent government deficits and mounting debt of Greece, Portugal and Italy, the greatly overbuilt housing of Ireland and Spain, unrecognized bank liabilities, implicit government liabilities and dire economic problems plague Europe. All of these concerns also threaten United States banks with exposure to these problems. Greece's debt is about 143% of its GDP and European leaders agreed upon a \$157 billion rescue plan, but the crisis does not show signs of abating.¹ Doubts about Portugal, Ireland, Italy and Spain (the "PIIGS") have led investors to require large percentage spreads for those countries' bonds compared to German bonds, as shown on Page 3 of this exhibit.

The overbuilt housing, lack of creditworthiness and transparency of derivative instruments led to the now well-known bankruptcies and recession in the United States. Massive fiscal and monetary intervention by the U.S. Government followed, with latter now being maintained at a reduction in specific credit facilities and a plateau of its intervention in government securities.²

The recent earthquakes, tsunami and disastrous nuclear power station failures in Japan, together with its on-going economic stagnation have made Japan such an uninviting investment that, when the disasters hit, money flooded back into the country because companies and individuals had invested abroad for better returns and now needed to repatriate their earnings in order to pay for rebuilding.³ At

¹ New York Times:
<http://topics.nytimes.com/top/news/international/countriesandterritories/greece/index.html>, updated June 6, 2011.

² In the Federal Reserve Open Market Committee's press release on August 9, 2011 stated that, "The Committee also will maintain its existing policy of reinvesting principal payments from its securities holdings.

³ "Yen Strengthens After Earthquake, Tsunami Warning Spur Carry Trade Unwind," by Allison Bennett and Catarina Saraiva -- Apr 7, 2011 in Bloomberg at:

least one Japanese executive, nonetheless, is even predicting that the Japanese financial system is headed for a currency collapse, saying, “The Japanese yen is now being chosen as a safe haven. But the currency is about as safe as standing under a cliff in the way of a landslide in the pouring rain.”⁴

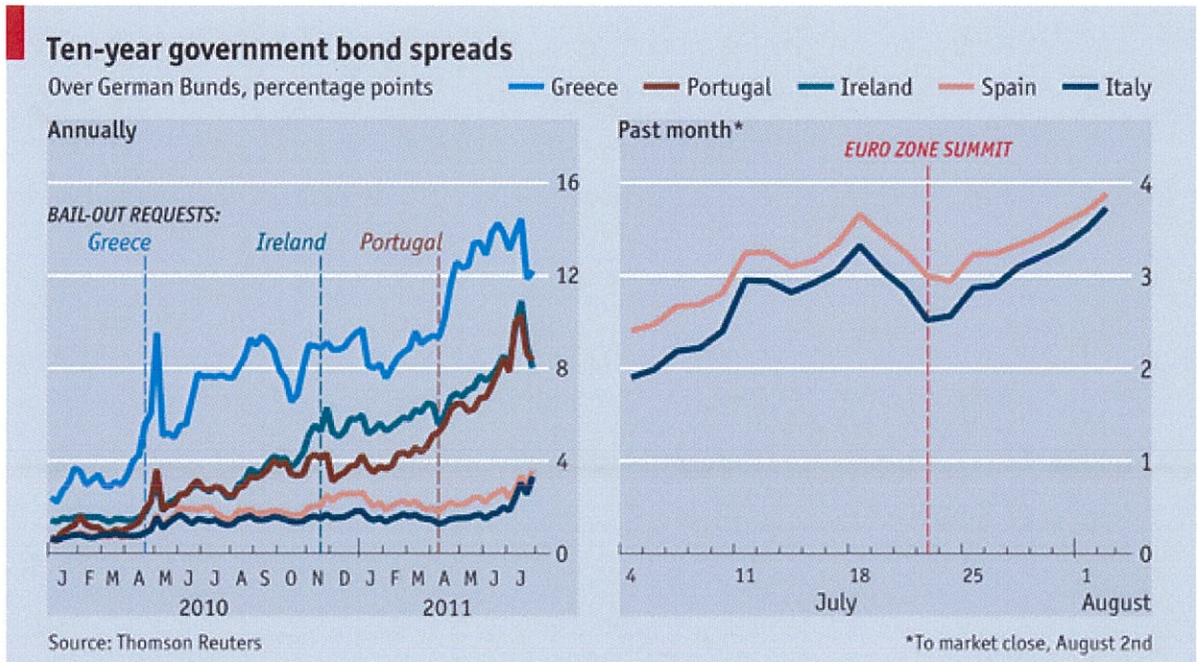
China has long been thought of as an unstoppable economic juggernaut with a very high GDP growth for 15 years and an accumulated \$3 trillion in foreign-exchange reserves. Its very strength as an export-driven economy threatens to undo China as it attempts to sterilize the oversupply of money to prevent inflation. This ample supply of money has led to investments whose value is questionable. Moreover, China’s debt-to-GDP ratio is greatly understated and may be higher than the United States’ is projected to be in 2015; China’s local government debt may be understated by half a trillion Dollars as China’s central bank alone holds over a trillion Dollars’ worth of debt, with credit in the system allowed at 200% of GDP.⁵ Even if China tried to go on a “shopping spree” to reduce its reserves, it could buy Apple, IBM, Microsoft and Google and still have \$2 trillion left over, while finding that anything it sought to buy would increase dramatically in price due to its very purchases.

<http://www.bloomberg.com/news/2011-04-07/yen-strengthens-after-earthquake-tsunami-warning-spur-carry-trade-unwind.html>

⁴ BBC New, August 4, 2011. “Viewpoint: Yen is heading for a currency collapse by Takeshi Fujimaki, Chief Executive, Fujimaki Japan; <http://www.bbc.co.uk/news/>

⁵ “China’s Debt Situation Worse than Portugal,” Elizabeth McDonald, August 7, 2011, FoxBusiness at: <http://www.foxbusiness.com/topics/elizabeth-macdonald.htm>

European bond spreads as cited in "The single currency's medical chart," August 3, 2011, by The Economist online:



DCF SUMMARY OF RESULTS

	<u>Earnings per Share</u>	<u>Dividends per Share</u>	<u>Sales/Revenue</u>	<u>Book Value per Share</u>
10-year	4.09%	2.48%	7.28%	5.16%
5-Year	4.84%	3.70%	7.46%	5.60%
3-Year	5.36%	2.92%	6.60%	3.88%
Average	4.76%	3.03%	7.11%	4.88%
Estimates	7.33%	6.23%	7.09%	4.85%
Growth	6.05%	4.63%	7.10%	4.86%
Overall Growth				5.66%
Dividend Yield				3.27%
Yield Adjustment				<u>0.09%</u>
Cost of Equity				<u>9.02%</u>

Source: Exhibits DHC-3, -4, -5, -6, & -8

Earnings Per Share ("EPS")

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
American States Water	\$1.19	\$1.28	\$1.35	\$1.34	\$0.78	\$1.05	\$1.32	\$1.33	\$1.62	\$1.55	\$1.62	\$2.22
American Water Works												
Aqua America	\$0.42	\$0.47	\$0.51	\$0.54	\$0.57	\$0.64	\$0.71	\$0.70	\$0.71	\$0.73	\$0.77	\$0.90
Artesian Resources*												
California Water	\$0.77	\$0.66	\$0.47	\$0.63	\$0.61	\$0.73	\$0.74	\$0.67	\$0.75	\$0.95	\$0.98	\$0.91
Connecticut Water Service	\$1.03	\$1.09	\$1.13	\$1.12	\$1.15	\$1.16	\$0.88	\$0.81	\$1.05	\$1.11	\$1.19	\$1.13
Middlesex Water	\$0.76	\$0.51	\$0.66	\$0.73	\$0.61	\$0.73	\$0.71	\$0.82	\$0.87	\$0.89	\$0.72	\$0.96
SJW Corp.	\$0.87	\$0.58	\$0.77	\$0.78	\$0.91	\$0.87	\$1.12	\$1.19	\$1.04	\$1.08	\$0.81	\$0.84
York Water Co.			\$0.43	\$0.40	\$0.47	\$0.49	\$0.56	\$0.58	\$0.57	\$0.57	\$0.64	\$0.71

Year over Year Change Ratios for EPS

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
American States Water	1.08	1.05	0.99	0.58	1.35	1.26	1.01	1.22	0.96	1.05	1.37
American Water Works										1.14	1.22
Aqua America	1.12	1.09	1.06	1.06	1.12	1.11	0.99	1.01	1.03	1.05	1.17
Artesian Resources				0.84	1.13	1.13	1.20	0.93	0.96	1.13	1.03
California Water	0.86	0.71	1.34	0.97	1.20	1.01	0.91	1.12	1.27	1.03	0.93
Connecticut Water Service	1.06	1.04	0.99	1.03	1.01	0.76	0.92	1.30	1.06	1.07	0.95
Middlesex Water	0.67	1.29	1.11	0.84	1.20	0.97	1.15	1.06	1.02	0.81	1.33
SJW Corp.	0.67	1.33	1.01	1.17	0.96	1.29	1.06	0.87	1.04	0.75	1.04
York Water Co.			0.92	1.18	1.04	1.14	1.04	0.98	1.00	1.12	1.11

Source: Exhibit DHC-7

EPS Historical Summary

	Annual Growth Rates				average of all means & medians:
	10-yr '00-'10	5-yr '05-'10	3-yr '07-'10		
	5.83%	10.96%	11.07%		
	7.17%	4.86%	8.23%		
		4.30%	3.57%		
	1.53%	4.22%	6.66%		
	0.85%	5.13%	2.48%		
	2.15%	6.22%	3.34%		
	-0.32%	-5.59%	-6.87%		
		4.86%	7.60%		
mean	2.87%	4.37%	4.51%	3.93%	
median	1.84%	4.86%	5.12%		

	Arithmetic Means, a.k.a., Simple Averages				average of all means & medians:
	10-yr '00-'10	5-yr '05-'10	3-yr '07-'10	average of all means & medians:	
	8.31%	11.96%	12.41%	5.60%	
	6.84%	5.04%	8.39%		
		4.80%	3.81%		
	4.83%	5.03%	7.56%		
	1.17%	5.91%	2.63%		
	7.86%	7.62%	5.51%		
	5.13%	-4.76%	-5.82%		
		5.01%	7.74%		
mean	5.69%	5.08%	5.28%	4.76%	
median	5.98%	5.04%	6.54%		

Analysts' EPS Estimates*

	<u>Value Line</u> (7/20/11)		<u>Yahoo! Finance</u> (7/25/11)		<u>Zacks</u> (7/28/11)
	2012-13†	2014-2016	2012 ‡	next 5 years	‡
American States Water		3.45%	9.30%	5.50%	4.88%
American Water Works		9.47%	8.65%	8.70%	8.69%
Aqua America		13.46%	7.03%	6.00%	6.50%
Artesian Resources	6.30%	3.60%	12.47%	4.53%	3.60%
California Water		11.93%	14.62%	9.00%	10.13%
Conn. Water Service	10.11%	4.00%	6.36%	3.00%	4.00%
Middlesex Water	4.08%	3.00%	16.17%	3.00%	3.00%
SJW Corp.		12.03%	9.30%	14.00%	14.60%
York Water Co.	6.15%	6.00%	5.37%	6.00%	6.00%

*estimates are for the longest period estimated by analysts or are derived from available numeric estimates for such periods

†2012-13 & 2014-2016 are averaged

‡ American States Water, California Water and SJW are through the end of 2012; all others are for the next 5 years, to 2016

	<u>Value Line</u>	<u>Yahoo!</u>	<u>Zacks</u>
mean	7.99%	8.28%	6.82%
median	7.05%	7.84%	6.00%
average of mean & median	7.52%	8.06%	6.41%
average of short- and long-term	7.52%	8.06%	6.41%
		Average of the averages of estimates	
			7.33%

Average of historical and estimated averages

6.05%

Dividends Per Share ("DPS")

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
American States Water	\$0.85	\$0.86	\$0.87	\$0.87	\$0.88	\$0.89	\$0.90	\$0.91	\$0.96	\$1.00	\$1.01	\$1.04
American Water Works										\$0.40	\$0.82	\$0.86
Aqua America	\$0.27	\$0.28	\$0.30	\$0.32	\$0.35	\$0.37	\$0.40	\$0.44	\$0.48	\$0.51	\$0.55	\$0.59
Artesian Resources										\$0.71	\$0.72	\$0.75
California Water	\$0.54	\$0.55	\$0.56	\$0.56	\$0.56	\$0.57	\$0.57	\$0.58	\$0.58	\$0.59	\$0.59	\$0.60
Conn. Water Service	\$0.79	\$0.79	\$0.80	\$0.81	\$0.83	\$0.84	\$0.85	\$0.86	\$0.87	\$0.88	\$0.90	\$0.92
Middlesex Water	\$0.60	\$0.61	\$0.62	\$0.63	\$0.65	\$0.66	\$0.67	\$0.68	\$0.69	\$0.70	\$0.71	\$0.72
SJW Corp.	\$0.40	\$0.41	\$0.43	\$0.46	\$0.49	\$0.51	\$0.53	\$0.57	\$0.61	\$0.65	\$0.66	\$0.68
York Water Co.			\$0.34	\$0.35	\$0.37	\$0.39	\$0.42	\$0.45	\$0.48	\$0.49	\$0.51	\$0.52

Year over Year Change Ratios for DPS

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
American States Water	1.01	1.01	1.00	1.01	1.01	1.01	1.01	1.05	1.04	1.01	1.03
American Water Works										2.05	1.05
Aqua America	1.04	1.07	1.07	1.09	1.06	1.08	1.10	1.09	1.06	1.08	1.07
Artesian Resources				1.03	1.04	1.05	1.05	1.08	1.08	1.01	1.04
California Water	1.02	1.02	1.00	1.00	1.02	1.00	1.02	1.00	1.02	1.00	1.02
Conn. Water Service	1.00	1.01	1.01	1.02	1.01	1.01	1.01	1.01	1.01	1.02	1.02
Middlesex Water	1.02	1.02	1.02	1.03	1.02	1.02	1.01	1.01	1.01	1.01	1.01
SJW Corp.	1.03	1.05	1.07	1.07	1.04	1.04	1.08	1.07	1.07	1.02	1.03
York Water Co.			1.03	1.06	1.05	1.08	1.07	1.07	1.02	1.04	1.02

Source: Exhibit DHC-7

DPS Historical Summary

Geometric Means or Compound Annual

Growth Rates

	10-yr '00-'10	5-yr '05-'10	3-yr '07-'10
American States Water	1.92%	2.93%	2.70%
American Water Works	7.74%	8.08%	7.12%
Aqua America	0.87%	1.03%	1.14%
Artesian Resources	1.54%	1.60%	1.88%
California Water	1.67%	1.45%	1.43%
Connecticut Water Service	5.19%	5.11%	3.69%
Middlesex Water		4.36%	2.70%
SJW Corp.			
York Water Co.			
mean	3.15%	3.73%	3.13%
median	1.80%	3.65%	2.70%
average of all means & medians:			3.03%

Arithmetic Means or Simple Averages

	10-yr '00-'10	5-yr '05-'10	3-yr '07-'10
American States Water	1.93%	2.95%	2.71%
American Water Works	7.75%	8.09%	7.12%
Aqua America	0.88%	1.03%	1.14%
Artesian Resources	1.54%	1.60%	1.88%
California Water	1.67%	1.45%	1.43%
Connecticut Water Service	5.21%	5.14%	3.71%
Middlesex Water		4.39%	2.71%
SJW Corp.			
York Water Co.			
mean	3.16%	3.74%	3.14%
median	1.80%	3.67%	2.71%
average of all means & medians:			3.04%

Average of the historical averages

3.03%

Analysts' DPS Estimates

American States Water	Value Line
American Water Works	2014-2016
Aqua America	6.11%
Artesian Resources	7.29%
California Water	8.30%
Connecticut Water Service	none
Middlesex Water	4.50%
SJW Corp.	none
York Water Co.	5.49%
	none

mean	6.34%
median	6.11%
	6.23% average of mean & median

Average of historical & estimates averages

4.63%

Sales/Revenues

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
American States Water	\$173.40	\$184.00	\$197.50	\$209.20	\$212.70	\$228.00	\$236.20	\$268.60	\$301.40	\$318.70	\$361.00	\$398.90
American Water Works										\$2,336.90	\$2,440.70	\$2,710.00
Aqua America	\$257.30	\$275.50	\$307.30	\$322.00	\$367.20	\$442.00	\$496.80	\$533.50	\$602.50	\$627.00	\$670.50	\$726.10
Artesian Resources	\$26.80	\$27.60	\$32.00	\$34.60	\$36.30	\$39.60	\$45.30	\$47.30	\$52.50	\$56.20	\$60.90	\$64.90
California Water	\$206.40	\$244.80	\$246.80	\$263.20	\$277.10	\$315.60	\$320.70	\$334.70	\$367.10	\$410.30	\$449.50	\$460.40
Connecticut Water Service	\$42.60	\$41.50	\$45.40	\$45.80	\$47.10	\$48.50	\$47.50	\$46.90	\$59.00	\$61.30	\$59.40	\$66.40
Middlesex Water	\$53.50	\$54.50	\$59.60	\$61.90	\$64.10	\$71.00	\$74.60	\$81.10	\$86.10	\$91.00	\$91.20	\$102.70
SJW Corp.	\$117.00	\$123.20	\$136.10	\$145.70	\$149.70	\$166.90	\$180.10	\$189.20	\$206.60	\$220.30	\$216.10	\$215.60
York Water Co.		\$18.50	\$19.40	\$19.60	\$20.90	\$22.50	\$26.80	\$28.70	\$31.40	\$32.80	\$37.00	\$39.00

Year over Year Change Ratios for Sales/Revenues

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
American States Water	1.06	1.07	1.06	1.02	1.07	1.04	1.14	1.12	1.06	1.13	1.10
American Water Works										1.04	1.11
Aqua America	1.07	1.12	1.05	1.14	1.20	1.12	1.07	1.13	1.04	1.07	1.08
Artesian Resources	1.03	1.16	1.08	1.05	1.09	1.14	1.04	1.11	1.07	1.08	1.07
California Water	1.19	1.01	1.07	1.05	1.14	1.02	1.04	1.10	1.12	1.10	1.02
Connecticut Water Service	0.97	1.09	1.01	1.03	1.03	0.98	0.99	1.26	1.04	0.97	1.12
Middlesex Water	1.02	1.09	1.04	1.04	1.11	1.05	1.09	1.06	1.06	1.00	1.13
SJW Corp.	1.05	1.10	1.07	1.03	1.11	1.08	1.05	1.09	1.07	0.98	1.00
York Water Co.		1.05	1.01	1.07	1.08	1.19	1.07	1.09	1.04	1.13	1.05

Source: Exhibit DHC-7

Sales/Revenue Historical Summary

Geometric Means or Compound
Annual Growth Rates

	10-yr '00-'10	5-yr '05-'10	3-yr '07-'10
American States Water	8.04%	11.05%	9.79%
American Water Works			
Aqua America	10.18%	7.89%	6.42%
Artesian Resources	8.93%	7.46%	7.32%
California Water	6.52%	7.50%	7.84%
Connecticut Water Service	4.81%	6.93%	4.02%
Middlesex Water	6.54%	6.60%	6.05%
SJW Corp.	5.76%	3.66%	1.43%
York Water Co.	7.74%	7.79%	7.49%
	7.32%	7.36%	6.30%
	7.14%	7.48%	6.87%
	average of all means & medians:		
	7.08%		

Arithmetic Means or Simple
Averages

	10-yr '00-'10	5-yr '05-'10	3-yr '07-'10
American States Water	8.12%	11.09%	9.84%
American Water Works			
Aqua America	10.27%	7.92%	6.43%
Artesian Resources	8.99%	7.48%	7.33%
California Water	6.60%	7.56%	7.92%
Connecticut Water Service	5.11%	7.42%	4.19%
Middlesex Water	6.60%	6.68%	6.17%
SJW Corp.	5.84%	3.75%	1.50%
York Water Co.	7.85%	7.83%	7.56%
	7.42%	7.47%	6.37%
	7.23%	7.52%	6.88%
	average of all means & medians:		
	7.15%		
	Average of the historical averages		
	7.11%		

Analysts' Sales/Revenue Estimates*

	Value Line 2014-2016	Zacks	Yahoo! Finance 2012
American States Water	8.16%	10.58%	4.40%
American Water Works	7.58%		5.20%
Aqua America	8.63%	7.56%	6.30%
Artesian Resources		7.50%	6.10%
California Water	10.36%	8.84%	4.20%
Connecticut Water Service		8.07%	4.20%
Middlesex Water		5.36%	4.70%
SJW Corp.	9.90%	3.22%	6.20%
York Water Co.		8.17%	4.20%
mean	8.93%	7.41%	5.06%
median	8.63%	7.82%	4.70%
average of the mean and median	8.78%	7.61%	4.88%
	average of all estimates		7.09%

*information downloaded on same dates as EPS data, Exhibit DHC-3

Average of the historical and estimates average

7.10%

Book Value Per Share ("BVPS")

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
American States Water	\$11.82	\$12.74	\$13.22	\$14.05	\$13.97	\$15.01	\$15.72	\$16.64	\$17.53	\$17.95	\$19.39	\$20.26
American Water Works	\$3.42	\$3.85	\$4.15	\$4.36	\$5.34	\$5.89	\$6.30	\$6.96	\$7.32	\$7.82	\$8.12	\$8.51
Aqua America	\$6.71	\$6.45	\$6.48	\$6.56	\$7.22	\$7.83	\$7.90	\$9.07	\$9.25	\$9.72	\$10.13	\$10.45
Artesian Resources	\$8.61	\$8.92	\$9.25	\$10.06	\$10.46	\$10.94	\$11.52	\$11.60	\$11.95	\$12.23	\$12.67	\$13.05
Connecticut Water Service	\$6.95	\$6.98	\$7.11	\$7.39	\$7.60	\$8.02	\$8.26	\$9.52	\$10.05	\$10.03	\$10.33	\$11.13
Middlesex Water	\$7.88	\$7.90	\$8.17	\$8.40	\$9.11	\$10.11	\$10.72	\$12.48	\$12.90	\$13.99	\$13.66	\$13.75
SJW Corp.			\$3.79	\$3.90	\$4.06	\$4.65	\$4.85	\$5.84	\$5.97	\$6.14	\$6.92	\$7.19
York Water Co.												

Year over Year Change Ratios for BVPS

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
American States Water	1.08	1.04	1.06	0.99	1.07	1.05	1.06	1.05	1.02	1.08	1.04
American Water Works	1.13	1.08	1.05	1.22	1.10	1.07	1.10	1.05	1.07	1.04	1.05
Aqua America	0.96	1.00	1.01	1.10	1.08	1.01	1.15	1.02	1.05	1.04	1.03
Artesian Resources	1.04	1.04	1.09	1.04	1.05	1.05	1.01	1.03	1.02	1.04	1.03
Connecticut Water Service	1.00	1.02	1.04	1.03	1.06	1.03	1.15	1.06	1.00	1.03	1.08
Middlesex Water	1.00	1.03	1.03	1.08	1.11	1.06	1.16	1.03	1.08	0.98	1.01
SJW Corp.			1.03	1.04	1.15	1.04	1.20	1.02	1.03	1.13	1.04
York Water Co.											

Source: Exhibit DHC-7

BVPS Historical Summary

American States Water
American Water Works
Aqua America
Artesian Resources*
California Water
Conn. Water Service
Middlesex Water
SJW Corp.
York Water Co.

Geometric Means, a.k.a. Compound

Annual Growth Rates

	<u>10-yr</u> <u>'00-'10</u>	<u>5-yr</u> <u>'05-'10</u>	<u>3-yr</u> <u>'07-'10</u>
	4.75%	5.21%	4.94%
	8.25%	6.20%	5.15%
	4.94%	5.32%	2.18%
	4.94%	5.75%	4.15%
	3.88%	2.53%	2.98%
	4.78%	6.15%	3.46%
	5.70%	5.10%	2.15%
		8.19%	6.39%
mean	5.38%	5.56%	3.93%
median	4.86%	5.54%	3.81%
	average of all means & medians: 4.84%		

Arithmetic Means, a.k.a., Simple

Averages

	<u>10-yr</u> <u>'00-'10</u>	<u>5-yr</u> <u>'05-'10</u>	<u>3-yr</u> <u>'07-'10</u>
	4.78%	5.22%	4.97%
	8.37%	6.22%	5.16%
	5.04%	5.43%	2.18%
	5.85%	5.85%	4.15%
	3.90%	2.53%	2.98%
	4.85%	6.27%	3.51%
	5.82%	5.31%	2.25%
		8.42%	6.48%
mean	5.46%	5.66%	3.96%
median	4.94%	5.64%	3.83%
	Average of the historical averages 4.88%		

Analysts' BVPS Estimates

American States Water	Value Line
American Water Works	2014-2016
Aqua America	2.05%
Artesian Resources	0.01%
California Water	7.75%
Connecticut Water Service	none
Middlesex Water	4.89%
SJW Corp.	none
York Water Co.	none
	9.35%
	none

mean	4.81%
median	4.89%
Average of mean and median	4.85%

Average of the historical and estimates averages	4.88%
--------------------------------------------------	-------

(A) Primary earnings. Excludes nonrecurring gains/(losses): '04, 14%; '05, 25%; '06, 6%; '08, (27%); '10, (44%) '11, 3%. Next earnings report due early August. Quarterly egs. may not add due to rounding.	(B) Dividends historically paid in early March, June, September, and December. ■ Div'd reinstatement plan available.	(C) In millions, adjusted for split.	Company's Financial Strength	B++
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			Price Growth Persistence	65
			Earnings Predictability	85
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AMERICAN WATER NYSE:AWK										RECENT PRICE	29.56	P/E RATIO	17.4 (Trailing: 18.5) (Median: NMF)	RELATIVE P/E RATIO	1.09	DIV YLD	3.1%	VALUE LINE															
TIMELINESS	1	New 10/22/10																		High:	23.7	23.0	25.8	30.7				Target Price					
SAFETY	3	New 7/25/08																		Low:	16.5	16.2	19.4	25.2				2014	2015	2016			
TECHNICAL	3	Raised 7/15/11																		LEGENDS													
BETA	.65	(1.00 = Market)																	 Relative Price Strength													
2014-16 PROJECTIONS																				Options: Yes													
																				Shaded areas indicate recessions													
Price	50	Gain	Ann'l Total																														
High	50	(+70%)	16%																														
Low	35	(+28%)	7%																														
Insider Decisions																																	
A S O N D J F M A																																	
to Buy	0	0	0	0	0	0	1	0																									
Options	0	0	0	0	0	0	1	1																									
to Sell	0	0	0	0	0	0	0	1																									
Institutional Decisions																																	
3Q2010 4Q2010 1Q2011																																	
to Buy	146	145	168																														
to Sell	93	119	117																														
Hld's (000)	149349	145430	145932																														

AQUA AMERICA NYSE-WTR				RECENT PRICE	22.39	P/E RATIO	21.3	(Trailing: 24.1) Median: 25.0	RELATIVE P/E RATIO	1.33	DIV'D YLD	2.8%	VALUE LINE	Target Price Range			
TIMELINESS	3	Lowered 1/21/11	High: 12.0	14.8	15.0	16.8	18.5	29.2	29.8	26.6	22.0	21.5	23.0	23.8			
SAFETY	3	Lowered 8/1/03	Low: 6.3	9.4	9.6	11.8	14.2	17.5	20.1	18.9	12.2	15.4	16.5	21.0			
TECHNICAL	3	Raised 6/10/11	LEGENDS 1.60 x Dividends p sh divided by Interest Rate Relative Price Strength 5-for-4 split 12/00 5-for-4 split 12/01 5-for-4 split 12/03 4-for-3 split 12/05 Options: Yes Shaded areas indicate recessions														
BETA	.65	(1.00 = Market)	2014-16 PROJECTIONS Price Gain Return High 35 (+55%) 14% Low 25 (+10%) 6%														
Insider Decisions			Insider Decisions to Buy 0 1 0 0 0 0 0 0 0 to Sell 0 2 1 0 1 0 1 0 0 Options to Sell 0 2 1 1 1 0 0 1 0														
Institutional Decisions			Institutional Decisions to Buy 90 101 81 to Sell 101 94 112 Hld's(000) 59791 55463 55308														
CAPITAL STRUCTURE as of 3/31/11			CAPITAL STRUCTURE as of 3/31/11 Total Debt \$1558.5 mill. Due in 5 Yrs \$310 mill. LT Debt \$1530.1 mill. LT Interest \$68.9 mill. (LT interest earned: 4.5x; total interest coverage: 4.5x) (56% of Cap'l)														
Pension Assets-12/10 \$159.2 mill.			Pension Assets-12/10 \$159.2 mill. Oblig. \$234.9 mill.														
Pfd Stock None			Pfd Stock None														
Common Stock 138,217,191 shares			Common Stock 138,217,191 shares														
as of 4/27/11			as of 4/27/11														
MARKET CAP: \$3.1 billion (Mid Cap)			MARKET CAP: \$3.1 billion (Mid Cap)														
CURRENT POSITION (\$MILL.)			CURRENT POSITION (\$MILL.)														
Cash Assets			Cash Assets														
Receivables			Receivables														
Inventory (AvgCst)			Inventory (AvgCst)														
Other			Other														
Current Assets			Current Assets														
Acc'ts Payable			Acc'ts Payable														
Debt Due			Debt Due														
Other			Other														
Current Liab.			Current Liab.														
Fix. Chg. Cov.			Fix. Chg. Cov.														
ANNUAL RATES			ANNUAL RATES														
Past 10 Yrs.			Past 10 Yrs.														
Past 5 Yrs.			Past 5 Yrs.														
Est'd '08-'10			Est'd '08-'10														
of change (per sh)			of change (per sh)														
Revenues			Revenues														
"Cash Flow"			"Cash Flow"														
Earnings			Earnings														
Dividends			Dividends														
Book Value			Book Value														
Cal-endar			Cal-endar														
QUARTERLY REVENUES (\$mill.)			QUARTERLY REVENUES (\$mill.)														
Mar.31 Jun.30 Sep.30 Dec.31			Mar.31 Jun.30 Sep.30 Dec.31														
Full Year			Full Year														
2008			2008														
2009			2009														
2010			2010														
2011			2011														
2012			2012														
Cal-endar			Cal-endar														
EARNINGS PER SHARE A			EARNINGS PER SHARE A														
Mar.31 Jun.30 Sep.30 Dec.31			Mar.31 Jun.30 Sep.30 Dec.31														
Full Year			Full Year														
2008			2008														
2009			2009														
2010			2010														
2011			2011														
2012			2012														
Cal-endar			Cal-endar														
QUARTERLY DIVIDENDS PAID B			QUARTERLY DIVIDENDS PAID B														
Mar.31 Jun.30 Sep.30 Dec.31			Mar.31 Jun.30 Sep.30 Dec.31														
Full Year			Full Year														
2007			2007														
2008			2008														
2009			2009														
2010			2010														
2011			2011														
2012			2012														

Business: Aqua America, Inc. is the holding company for water and wastewater utilities that serve approximately three million residents in Pennsylvania, Ohio, North Carolina, Illinois, Texas, New Jersey, Florida, Indiana, and five other states. Divested three of four non-water businesses in '91; telemarketing group in '93; and others. Acquired AquaSource, 7/03; Consumers Water, 4/99; and others. Water supply revenues '10: residential, 59.4%; commercial, 14.5%; industrial & other, 26.0%. Officers and directors own 2.0% of the common stock (4/11 Proxy). Chairman & Chief Executive Officer: Nicholas DeBenedictis. Incorporated: Pennsylvania. Address: 762 West Lancaster Avenue, Bryn Mawr, Pennsylvania 19010. Telephone: 610-525-1400. Internet: www.aquaamerica.com.

Aqua America should continue its recovery in 2011. Namely, acquisitions and rate rulings are slated to provide a considerable boost to the top and bottom lines for this year.

Expansions remain the main focus. The company's Texas subsidiary recently completed its purchase of American Water Works Company's Texas operations. This acquisition is set to significantly expand Aqua America's customer base in one of its fastest growing sectors. The \$6 million transaction added a total of 51 water and five waste water systems, which serve approximately 16,000 people. The new unit will operate out of Aqua's Houston office, and the expanded subsidiary will cover a number of counties in the area including Brazoria, Harris, Liberty, and Matagorda. With the completion of this acquisition, Aqua America has grown its Texas customer base by about 50% since 2003, when it first entered the market. The company is planning a total of 15-20 acquisitions for the year, with future purchases planned in Pennsylvania, Texas, North Carolina, and Virginia.

Rate rulings should also play a role in

lifting the bottom line. The company is going forward with its plans to file in about seven states, including Pennsylvania, New Jersey, Ohio, Illinois, and Texas. Thus far, Aqua America has received approximately \$11 million in rate awards and surcharges.

The company has solid long-term prospects. Given Aqua America's aggressive expansion plans, the company should considerably benefit from acquisition driven growth, which should more than offset the slow organic growth it is experiencing due to the tepid economy. Elsewhere, increased drilling of gas in the Marcellus Shale remains an exciting prospect, with the expansion of water sales to trucks in the region progressing on schedule. These factors, combined with likely favorable rate rulings, should provide a lift to revenues and earnings for the 2014-2016 period.

Investors should find this issue of interest. The stock's dividend yield is well above the industry average, and the company has a long history of steady payout increases.

Sahana Zutshi
July 22, 2011

(A) Diluted egs. Excl. nonrec. gains (losses): '99, (11¢); '00, 2¢; '01, 2¢; '02, 5¢; '03, 4¢. Excl. gain from disc. operations: '96, 2¢. Earnings may not add due to rounding. Next earnings report due late July.

(B) Dividends historically paid in early March, June, Sept. & Dec. ■ Div'd. reinvestment plan available (5% discount).

(C) In millions, adjusted for stock splits.

Company's Financial Strength B+
Stock's Price Stability 100
Price Growth Persistence 70
Earnings Predictability 100

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ARTESIAN RES. CORP. NDQ--ARTNA				RECENT PRICE	19.06	TRAILING P/E RATIO	20.9	RELATIVE P/E RATIO	1.19	DIV'D YLD	4.0%	VALUE LINE	
RANKS				19.83	20.04	22.62	22.33	20.67	19.31	18.73	19.59	19.99	High
				13.08	15.18	17.20	17.90	18.26	13.00	12.81	16.43	17.69	Low
PERFORMANCE	3	Average	<div>LEGENDS</div> <div>— 12 Mos Mov Avg</div> <div>.... Rel Price Strength</div> <div>3-for-2 split 7/03</div> <div>3-for-2 split 7/06</div> <div>Shaded area indicates recession</div>										
Technical	3	Average											
SAFETY	2	Above Average											
BETA .60	(1.00 = Market)												
Financial Strength	B+												
Price Stability	100												
Price Growth Persistence	45												
Earnings Predictability	90												
© VALUE LINE PUBLISHING LLC				2003	2004	2005	2006	2007	2008	2009	2010	2011	2012/2013
SALES PER SH				6.20	6.67	7.52	7.77	7.20	7.59	8.11	8.48	--	
"CASH FLOW" PER SH				1.28	1.42	1.56	1.75	1.57	1.65	1.84	1.92	--	
EARNINGS PER SH				.64	.72	.81	.97	.90	.86	.97	1.00	1.00 ^{A,B}	1.13 ^C /NA
DIV'DS DECL'D PER SH				.53	.55	.58	.61	.66	.71	.72	.75	--	
CAP'L SPENDING PER SH				4.20	4.82	3.35	5.08	3.66	6.09	2.32	2.57	--	
BOOK VALUE PER SH				9.01	9.26	9.60	10.15	11.66	11.86	12.15	12.44	--	
COMMON SHS OUTST'G (MILL)				5.85	5.93	6.02	6.09	7.30	7.40	7.51	7.65	--	
AVG ANN'L P/E RATIO				24.7	25.4	24.2	20.3	21.5	20.1	16.4	18.2	19.1	16.9/NA
RELATIVE P/E RATIO				1.41	1.34	1.28	1.10	1.14	1.21	1.09	1.16	--	
AVG ANN'L DIV'D YIELD				3.4%	3.0%	2.9%	3.1%	3.4%	4.1%	4.5%	4.1%	--	
SALES (\$MILL)				36.3	39.6	45.3	47.3	52.5	56.2	60.9	64.9	--	Bold figures are consensus earnings estimates and, using the recent prices, P/E ratios.
OPERATING MARGIN				--	--	100.0%	45.6%	45.6%	45.1%	46.9%	46.5%	--	
DEPRECIATION (\$MILL)				3.6	4.0	4.4	4.6	5.2	5.8	6.6	7.0	--	
NET PROFIT (\$MILL)				3.9	4.4	5.0	6.1	6.3	6.4	7.3	7.6	--	
INCOME TAX RATE				37.9%	39.6%	39.9%	39.0%	39.8%	40.8%	40.1%	40.0%	--	
NET PROFIT MARGIN				10.8%	11.1%	11.1%	12.8%	11.9%	11.4%	11.9%	11.7%	--	
WORKING CAP'L (\$MILL)				d10.5	d8.7	d1.8	d8.8	2.5	d20.9	d23.3	d27.9	--	
LONG-TERM DEBT (\$MILL)				80.6	82.4	92.4	92.1	91.8	107.6	106.0	105.1	--	
SHR. EQUITY (\$MILL)				52.7	54.9	57.8	61.8	85.1	87.8	91.2	95.1	--	
RETURN ON TOTAL CAP'L				4.5%	5.1%	5.3%	5.8%	5.3%	4.7%	5.2%	5.6%	--	
RETURN ON SHR. EQUITY				7.4%	8.0%	8.7%	9.8%	7.4%	7.3%	8.0%	8.0%	--	
RETAINED TO COM EQ				1.4%	2.1%	2.7%	3.8%	2.1%	1.4%	2.1%	2.0%	--	
ALL DIV'DS TO NET PROF				81%	74%	69%	61%	71%	81%	74%	75%	--	
No. of analysts changing earn. est. in last 9 days: 0 up, 0 down, consensus 5-year earnings growth 3.6% per year. ^A Based upon 4 analysts' estimates. ^B Based upon 4 analysts' estimates. ^C Based upon 4 analysts' estimates.													
ANNUAL RATES				ASSETS (\$mill.)				2009	2010	3/31/11	INDUSTRY: Water Utility		
of change (per share)											BUSINESS: Artesian Resources Corporation, through its subsidiaries, provides water, wastewater and other services on the Delmarva Peninsula. The company distributes and sells water, including water for public and private fire protection, to residential, commercial, industrial, municipal and utility customers throughout the states of Delaware, Maryland and Pennsylvania. It also provides wastewater services to customers in Delaware and has entered into purchase agreements to provide wastewater services in the state of Maryland. In addition, Artesian provides contract water and wastewater operations, water and sewer service line protection plans, wastewater management services, and design, construction and engineering services. Artesian Resources is the parent holding company of Artesian Water Company, Inc., Artesian Water Pennsylvania, Inc., Artesian Water Maryland, Inc., Artesian Wastewater Management, Inc., Artesian Wastewater Maryland, Inc. and three other entities. Has 238 employees. Chairman, C.E.O. & President: Dian C. Taylor. Address: 664 Churchmans Rd., Newark, DE 19702. Tel.: 302 453-6900. Internet: http://www.artesianwater.com . W.T.		
Sales				Cash Assets				.5	.2	.3			
"Cash Flow"				Receivables				9.0	5.1	8.2			
Earnings				Inventory				1.2	1.2	1.3			
Dividends				Other				2.5	7.5	2.0			
Book Value				Current Assets				13.2	14.0	11.8			
Fiscal Year				Property, Plant & Equip, at cost				403.0	414.6	--			
				Accum Depreciation				64.9	69.2	--			
12/31/09				Net Property				338.1	345.4	350.7			
12/31/10				Other				7.6	12.1	7.8			
12/31/11				Total Assets				358.9	371.5	370.3			
12/31/12													
Fiscal Year				LIABILITIES (\$mill.)									
12/31/08				Accs Payable				3.7	3.4	3.6			
12/31/09				Debt Due				27.7	30.6	27.6			
12/31/10				Other				5.1	7.9	7.0			
12/31/11				Current Liab				36.5	41.9	38.2			
12/31/12													
Cal-endar				LONG-TERM DEBT AND EQUITY as of 3/31/11									
2008				Total Debt \$134.5 mill.						Due in 5 Yrs. NA			
2009				LT Debt \$106.9 mill.									
2010				Including Cap. Leases NA						(53% of Cap'l)			
2011				Leases, Uncapitalized Annual rentals NA									
				Pension Liability \$.5 mill. in '10 vs. \$.7 mill. in '09									
				Pfd Stock None						Pfd Div'd Paid None			
				Common Stock 7,665,000 shares						(47% of Cap'l)			
3Q'10													
to Buy													
to Sell													
Hld's(000)													
									</				

(A) Basic EPS. Excl. nonrecurring gain (loss): '00, (7¢); '01, 4¢; '02, 8¢. Next earnings report due July 29th.	(B) Dividends historically paid in early Feb., May, Aug., and Nov. ■ Div'd reinvestment plan available.	(C) Incl. deferred charges. In '10: \$2.2 mill., \$0.11/sh. (D) in millions, adjusted for split. (E) Excludes non-reg. rev.	Company's Financial Strength Stock's Price Stability Price Growth Persistence Earnings Predictability	B+ 90 95 85
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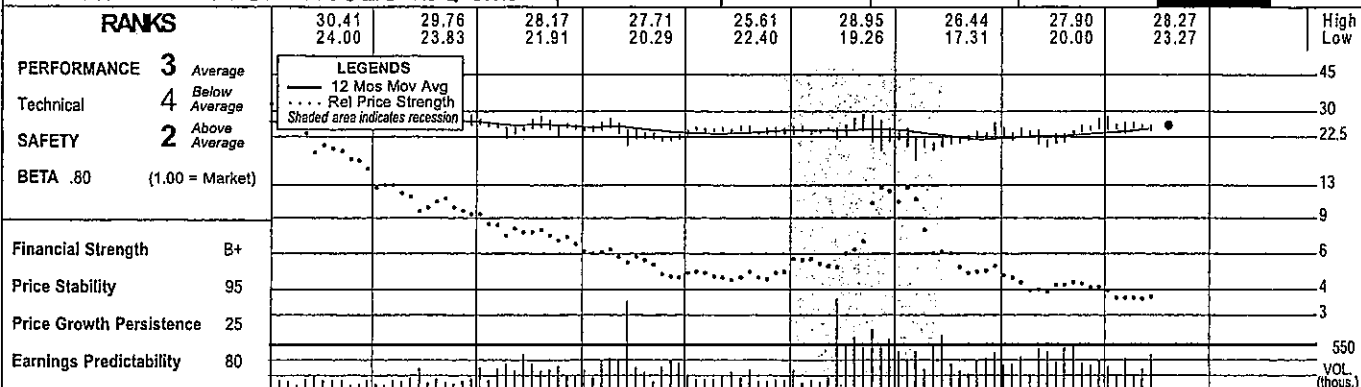
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CONN. WATER SERVICES NDQ-CTWS

RECENT PRICE **25.66**

TRAILING P/E RATIO **20.2**

RELATIVE P/E RATIO **1.14**

DIV'D YLD **3.6%**
VALUE LINE


© VALUE LINE PUBLISHING LLC	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012/2013
SALES PER SH	5.91	6.04	5.81	5.68	7.05	7.24	6.93	7.65	--	
"CASH FLOW" PER SH	1.89	1.91	1.62	1.52	1.90	1.95	1.93	2.04	--	
EARNINGS PER SH	1.15	1.16	.88	.81	1.05	1.11	1.19	1.13	1.34 ^{A,B}	1.37 ^C /NA
DIV'DS DECL'D PER SH	.83	.84	.85	.86	.87	.88	.90	.92	--	
CAP'L SPENDING PER SH	1.49	1.58	1.96	1.96	2.24	2.44	3.28	3.06	--	
BOOK VALUE PER SH	10.46	10.94	11.52	11.60	11.95	12.23	12.67	13.05	--	
COMMON SHS OUTST'G (MILL)	7.97	8.04	8.17	8.27	8.38	8.46	8.57	8.68	--	
AVG ANN'L P/E RATIO	23.5	22.9	28.6	29.0	23.0	22.2	18.4	20.7	19.1	18.7/NA
RELATIVE P/E RATIO	1.34	1.21	1.51	1.57	1.22	1.34	1.22	1.32	--	
AVG ANN'L DIV'D YIELD	3.0%	3.1%	3.4%	3.6%	3.6%	3.6%	4.1%	3.9%	--	
SALES (\$MILL)	47.1	48.5	47.5	46.9	59.0	61.3	59.4	66.4	--	Bold figures are consensus earnings estimates and, using the recent prices, P/E ratios.
OPERATING MARGIN	52.1%	51.0%	48.3%	43.7%	40.8%	49.0%	35.8%	40.7%	--	
DEPRECIATION (\$MILL)	5.9	6.0	6.1	5.9	7.2	7.1	6.4	7.9	--	
NET PROFIT (\$MILL)	9.2	9.4	7.2	6.7	8.8	9.4	10.2	9.8	--	
INCOME TAX RATE	17.9%	22.9%	--	23.5%	32.4%	27.2%	19.5%	35.2%	--	
NET PROFIT MARGIN	19.5%	19.4%	15.1%	14.3%	14.9%	15.4%	17.2%	14.8%	--	
WORKING CAP'L (\$MILL)	d3.9	d.7	13.0	1.2	8.1	d3.3	d13.1	d14.7	--	
LONG-TERM DEBT (\$MILL)	64.8	66.4	77.4	77.3	92.3	92.2	112.0	111.7	--	
SHR. EQUITY (\$MILL)	84.2	88.7	94.9	96.7	100.9	104.2	109.3	114.0	--	
RETURN ON TOTAL CAP'L	7.5%	7.0%	5.0%	4.9%	5.5%	5.9%	5.5%	5.4%	--	
RETURN ON SHR. EQUITY	10.9%	10.6%	7.5%	6.9%	8.7%	9.0%	9.3%	8.6%	--	
RETAINED TO COM EQ	3.2%	3.1%	.3%	NMF	1.6%	1.9%	2.3%	1.6%	--	
ALL DIV'DS TO NET PROF	71%	71%	95%	105%	82%	79%	76%	81%	--	

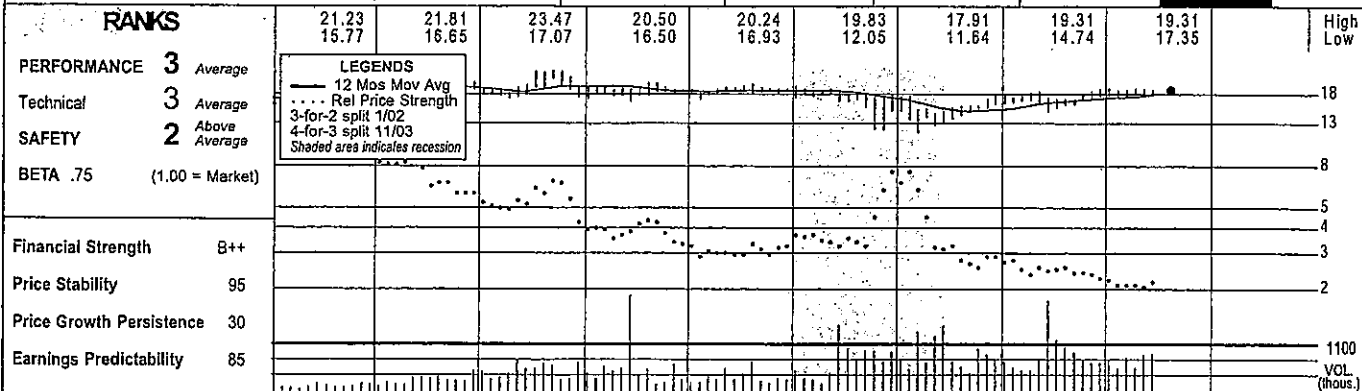
^ANo. of analysts changing earn. est. in last 9 days: 0 up, 0 down, consensus 5-year earnings growth 4.0% per year. ^BBased upon 6 analysts' estimates. ^CBased upon 6 analysts' estimates.

ANNUAL RATES						INDUSTRY: Water Utility			
of change (per share)		5 Yrs.	1 Yr.			BUSINESS: Connecticut Water Service, Inc. primarily operates as a water utility provider. The company operates through three segments: Water Activities, Real Estate Transactions, and Services and Rentals. The Water Activities segment supplies public drinking water to its customers. Its Real Estate Transactions segment involves in the sale of its limited excess real estate holdings. The Services and Rentals segment provides contracted services to water and wastewater utilities and other clients, as well as leases certain properties to third parties. This segment's services include contract operations of water and wastewater facilities; Linebacker, its service line protection plan for public drinking water customers; and provision of bulk deliveries of emergency drinking water to businesses and residences via tanker truck. In April, Connecticut Water Service completed the acquisition of the Green Springs Water Company in Madison, Connecticut. Has 204 employees. Chairman, C.E.O. & President: Eric W. Thornburg, Inc.: CT. Address: 93 West Main Street, Clinton, CT 06413. Tel.: (860) 669-8636. Internet: http://www.ctwater.com . <i>W.T.</i> <i>July 22, 2011</i>			
Sales		4.0%	10.5%						
"Cash Flow"		2.0%	5.5%						
Earnings		1.5%	-5.0%						
Dividends		1.5%	2.0%						
Book Value		3.0%	3.0%						
Fiscal Year	QUARTERLY SALES (\$mill.)				Full Year				
	1Q	2Q	3Q	4Q		ASSETS (\$mill.)			
12/31/09	13.4	15.2	16.6	14.2	59.4	Property, Plant & Equip, at cost	448.2	471.6	--
12/31/10	13.8	15.9	21.0	15.7	66.4	Accum Depreciation	123.0	127.4	--
12/31/11	17.5					Net Property	325.2	344.2	350.3
12/31/12						Other	<u>70.1</u>	<u>60.6</u>	<u>55.5</u>
						Total Assets	415.3	425.2	427.0
Fiscal Year	EARNINGS PER SHARE				Full Year				
	1Q	2Q	3Q	4Q		LIABILITIES (\$mill.)			
12/31/08	.20	.35	.34	.22	1.11	Accts Payable	6.5	6.6	4.6
12/31/09	.13	.27	.67	.12	1.19	Debt Due	25.0	26.3	26.3
12/31/10	.12	.27	.54	.20	1.13	Other	<u>1.6</u>	<u>2.2</u>	<u>3.2</u>
12/31/11	.26	.36	.48	.23		Current Liab	33.1	35.1	34.1
12/31/12						LONG-TERM DEBT AND EQUITY as of 3/31/11			
Cal-endar	QUARTERLY DIVIDENDS PAID				Full Year				
	1Q	2Q	3Q	4Q		Total Debt \$137.8 mill. Due in 5 Yrs. NA			
2008	.218	.218	.222	.222	.88	LT Debt \$111.5 mill.			
2009	.222	.222	.228	.228	.90	Including Cap. Leases NA			
2010	.228	.228	.233	.233	.92	(49% of Cap'l)			
2011	.233	.233				Leases, Uncapitalized Annual rentals NA			
INSTITUTIONAL DECISIONS						Pension Liability \$16.7 mill. in '10 vs. \$14.9 mill. in '09			
	3Q'10	4Q'10	1Q'11			Pfd Stock \$.8 mill. Pfd Div'd Paid NMF			
to Buy	21	27	25			Common Stock 8,705,000 shares			
to Sell	21	19	19			(51% of Cap'l)			
Hld's(000)	2747	2764	2769						

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MIDDLESEX WATER	NDQ-MSEX	RECENT PRICE	18.82	TRAILING P/E RATIO	18.5	RELATIVE P/E RATIO	1.05	DIV'D YLD	3.9%	VALUE LINE
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© VALUE LINE PUBLISHING LLC	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012/2013
SALES PER SH	6.12	6.25	6.44	6.16	6.50	6.79	6.75	6.60	--	
"CASH FLOW" PER SH	1.15	1.28	1.33	1.33	1.49	1.53	1.40	1.55	--	
EARNINGS PER SH	.61	.73	.71	.82	.87	.89	.72	.96	.98 ^{A,B}	1.04 ^C /NA
DIV'DS DECL'D PER SH	.65	.66	.67	.68	.69	.70	.71	.72	--	
CAP'L SPENDING PER SH	1.87	2.54	2.18	2.31	1.66	2.12	1.49	1.90	--	
BOOK VALUE PER SH	7.60	8.02	8.26	9.52	10.05	10.03	10.33	11.13	--	
COMMON SHS OUTST'G (MILL)	10.48	11.36	11.58	13.17	13.25	13.40	13.52	15.57	--	
AVG ANN'L P/E RATIO	30.0	26.4	27.4	22.7	21.6	19.8	21.0	17.8	19.2	18.1/NA
RELATIVE P/E RATIO	1.71	1.39	1.45	1.23	1.15	1.19	1.40	1.14	--	
AVG ANN'L DIV'D YIELD	3.5%	3.4%	3.5%	3.7%	3.7%	4.0%	4.7%	4.2%	--	
SALES (\$MILL)	64.1	71.0	74.6	81.1	86.1	91.0	91.2	102.7	--	Bold figures are consensus earnings estimates and, using the recent prices, P/E ratios.
OPERATING MARGIN	44.0%	44.4%	44.4%	47.4%	47.0%	46.9%	42.6%	46.7%	--	
DEPRECIATION (\$MILL)	5.6	6.4	7.2	7.8	8.2	8.5	9.2	10.0	--	
NET PROFIT (\$MILL)	6.6	8.4	8.5	10.0	11.8	12.2	10.0	14.3	--	
INCOME TAX RATE	32.8%	31.1%	27.6%	33.4%	32.6%	33.2%	34.1%	32.1%	--	
NET PROFIT MARGIN	10.3%	11.9%	11.4%	12.4%	13.8%	13.4%	10.9%	13.9%	--	
WORKING CAP'L (\$MILL)	d13.3	d11.8	d4.5	2.8	d9.6	d40.9	d38.6	d17.9	--	
LONG-TERM DEBT (\$MILL)	97.4	115.3	128.2	130.7	131.6	118.2	124.9	133.8	--	
SHR. EQUITY (\$MILL)	83.7	99.2	103.6	133.3	137.1	141.2	143.0	176.6	--	
RETURN ON TOTAL CAP'L	5.0%	5.1%	5.0%	5.1%	5.6%	5.8%	5.0%	5.7%	--	
RETURN ON SHR. EQUITY	7.9%	8.5%	8.2%	7.5%	8.6%	8.6%	7.0%	8.1%	--	
RETAINED TO COM EQ	NMF	.9%	.6%	1.3%	1.8%	2.0%	.1%	2.1%	--	
ALL DIV'DS TO NET PROF	106%	90%	94%	84%	79%	78%	98%	75%	--	

^ANo. of analysts changing earn. est. in last 9 days: 0 up, 0 down, consensus 5-year earnings growth 3.0% per year. ^BBased upon 3 analysts' estimates. ^CBased upon 3 analysts' estimates.

ANNUAL RATES					
of change (per share)	5 Yrs.	1 Yr.			
Sales	1.5%	-2.0%			
"Cash Flow"	3.5%	10.0%			
Earnings	4.5%	33.5%			
Dividends	1.5%	1.5%			
Book Value	5.5%	8.0%			
Fiscal Year	QUARTERLY SALES (\$mill.)				Full Year
	1Q	2Q	3Q	4Q	
12/31/09	20.6	23.1	25.5	22.0	91.2
12/31/10	21.6	26.5	29.6	25.0	102.7
12/31/11	24.0				
12/31/12					
Fiscal Year	EARNINGS PER SHARE				Full Year
	1Q	2Q	3Q	4Q	
12/31/08	.15	.26	.35	.13	.89
12/31/09	.10	.21	.29	.12	.72
12/31/10	.11	.31	.37	.17	.96
12/31/11	.17	.28	.35	.18	
12/31/12					
Cal-endar	QUARTERLY DIVIDENDS PAID				Full Year
	1Q	2Q	3Q	4Q	
2008	.175	.175	.175	.178	.70
2009	.178	.178	.178	.18	.71
2010	.18	.18	.18	.183	.72
2011	.183	.183			
INSTITUTIONAL DECISIONS					
	3Q'10	4Q'10	1Q'11		
to Buy	30	39	25		
to Sell	24	21	25		
Hld's(000)	5930	6031	6200		

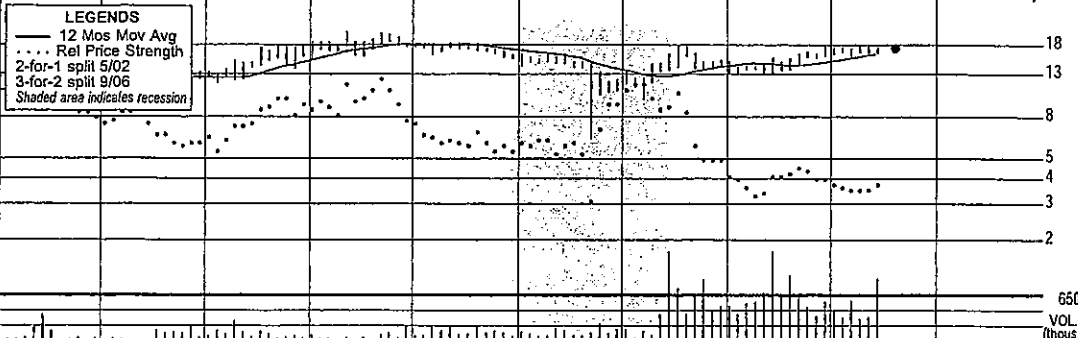
ASSETS (\$mill.)	2009	2010	3/31/11
Cash Assets	4.3	2.5	3.8
Receivables	10.6	16.7	14.6
Inventory (Avg cost)	1.6	2.2	1.5
Other	5.5	1.4	1.5
Current Assets	22.0	22.8	21.4
Property, Plant & Equip, at cost	453.6	490.6	--
Accum Depreciation	77.1	84.7	--
Net Property	376.5	405.9	409.7
Other	59.6	60.5	58.9
Total Assets	458.1	489.2	490.0
LIABILITIES (\$mill.)			
Accs Payable	4.3	6.4	5.2
Debt Due	46.6	21.4	22.2
Other	9.8	12.9	14.3
Current Liab	60.7	40.7	41.7
LONG-TERM DEBT AND EQUITY as of 3/31/11			
Total Debt \$155.3 mill.	Due in 5 Yrs. NA		
LT Debt \$133.0 mill.			
Including Cap. Leases NA	(43% of Cap'l)		
Leases, Uncapitalized Annual rentals NA			
Pension Liability \$28.6 mill. in '10 vs. \$25.7 mill. in '09			
Pfd Stock \$3.4 mill.	Pfd Div'd Paid \$.2 mill. (1% of Cap'l)		
Common Stock 15,587,000 shares	(56% of Cap'l)		

INDUSTRY: Water Utility					
BUSINESS: Middlesex Water Company engages in the ownership and operation of regulated water utility systems in New Jersey and Delaware, and a regulated wastewater utility in NJ. The company offers contract operations services and a service line maintenance program through its nonregulated subsidiary, Utility Service Affiliates, Inc. Its water utility system treats, stores, and distributes water for residential, commercial, industrial, and fire prevention purposes. The New Jersey subsidiaries provide water services to approximately 60,000 retail customers, primarily in eastern Middlesex County, New Jersey and provides water under wholesale contracts. It also provides water treatment and pumping services to the Township of East Brunswick, New Jersey under contract. Middlesex Water's Delaware subsidiaries provide water services to approximately 34,000 retail customers for domestic, commercial and fire protection purposes in New Castle, Kent, and Sussex counties. Has 292 employees. Chairman, C.E.O. & President: Dennis W. Doll. Address: 1500 Ronson Rd, P.O. BOX 1500, Iselin, NJ 08830. Tel.: 732-634-1500. Internet: http://www.middlesexwater.com . <i>W.T.</i>					
July 22, 2011					
TOTAL SHAREHOLDER RETURN					
Dividends plus appreciation as of 6/30/2011					
3 Mos.	6 Mos.	1 Yr.	3 Yrs.	5 Yrs.	
3.14%	3.24%	22.05%	27.42%	19.09%	

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SJW CORP. NYSE-SJW				RECENT PRICE	24.10	P/E RATIO	26.8 (Trailing: 29.4 Median: 22.0)	RELATIVE P/E RATIO	1.67	DIV'D YLD	2.9%	VALUE LINE																					
TIMELINESS	4	New 4/22/11	High: 20.3	17.8	15.1	15.0	19.6	27.8	45.3	43.0	35.1	30.4	28.2	26.8	Target Price	Range																	
SAFETY	3	New 4/22/11	Low: 15.8	11.6	12.7	12.6	14.6	16.1	21.2	27.7	20.0	18.2	21.6	21.9	2014	2015																	
TECHNICAL	3	Lowered 6/24/11	LEGENDS 1.50 x Dividends p sh divided by Interest Rate Relative Price Strength 3-for-1 split 3/04 2-for-1 split 3/06 Options No Shaded areas indicate recessions													2016																	
BETA	.90	(1.00 = Market)																															
2014-16 PROJECTIONS																																	
		Price	Gain	Ann'l Total																													
		40	(+65%)	Return																													
		25	(+5%)	16%																													
Insider Decisions																																	
		A	S	O	N	D	J	F	M	A																							
		to Buy	0	0	0	0	1	0	0	1																							
		Options	0	0	0	0	1	0	0	0																							
		to Sell	0	0	0	0	1	0	0	0																							
Institutional Decisions																																	
		3Q2010	4Q2010	1Q2011																													
		to Buy	26	34	26																												
		to Sell	28	26	34																												
		Hld's(000)	8969	8640	8648																												
						Percent	21																										
						shares	14																										
						traded	7																										
1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012																																	
©VALUE LINE PUB. LLC 14-16																																	
4.99	5.39	5.79	5.58	6.40	6.74	7.45	7.97	8.20	9.14	9.86	10.35	11.25	12.12	11.68	11.62	11.80	11.90	Revenues per sh	12.00														
.98	1.43	1.27	1.26	1.43	1.23	1.49	1.55	1.75	1.89	2.21	2.38	2.30	2.44	2.21	2.37	2.45	2.50	"Cash Flow" per sh	2.60														
.59	.96	.80	.76	.87	.58	.77	.78	.91	.87	1.12	1.19	1.04	1.08	.81	.84	.90	1.00	Earnings per sh	1.25														
.35	.37	.38	.39	.40	.41	.43	.46	.49	.51	.53	.57	.61	.65	.66	.68	.69	.74	Div'd Decl'd per sh	.82														
.96	1.06	1.27	1.81	1.77	1.89	2.63	2.06	3.41	2.31	2.83	3.87	6.62	3.79	3.17	5.65	5.10	4.75	Cap'l Spending per sh	4.30														
5.58	6.31	7.02	7.53	7.88	7.90	8.17	8.40	9.11	10.11	10.72	12.48	12.90	13.99	13.66	13.75	13.85	14.75	Book Value per sh	18.80														
19.50	19.02	19.02	19.01	18.27	18.27	18.27	18.27	18.27	18.27	18.27	18.28	18.36	18.18	18.50	18.55	19.50	21.00	Common Shs Outst'g	25.00														
9.9	6.8	11.2	13.1	15.5	33.1	18.5	17.3	15.4	19.6	19.7	23.5	33.4	26.2	28.7	29.5	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	25.0														
.66	.43	.65	.68	.88	2.15	.95	.94	.88	1.04	1.05	1.27	1.77	1.58	1.91	1.89			Relative P/E Ratio	1.65														
6.0%	5.7%	4.3%	3.9%	3.0%	2.1%	3.0%	3.4%	3.5%	3.0%	2.4%	2.0%	1.7%	2.3%	2.8%	2.8%			Avg Ann'l Div'd Yield	2.5%														
CAPITAL STRUCTURE as of 3/31/11																																	
Total Debt \$307.7 mill. Due in 5 Yrs \$19.3 mill.																																	
LT Debt \$295.1 mill. LT Interest \$17.0 mill.																																	
(LT interest earned: 1.4x: total interest coverage: 1.2x)																																	
(54% of Cap'l)																																	
Leases, Uncapitalized: Annual rentals \$4.2 mill.																																	
Pension Assets-12/10 \$10.8 mill.																																	
Obt'g. \$58.8 mill.																																	
Pfd Stock None.																																	
Common Stock 18,577,012 shs.																																	
as of 4/21/11																																	
MARKET CAP: \$450 million (Small Cap)																																	
CURRENT POSITION (SMILL.)																																	
		2009	2010	3/31/11																													
		Cash Assets	1.4	1.7	2.3																												
		Other	26.6	36.3	36.8																												
		Current Assets	28.0	38.0	39.1																												
		Accts Payable	6.6	5.5	10.6																												
		Debt Due	6.9	5.1	12.6																												
		Other	18.5	18.6	17.9																												
		Current Liab.	32.0	29.2	41.1																												
		Fix. Chg. Cov.	352%	400%	250%																												
ANNUAL RATES																																	
		Past 10 Yrs.	Past 5 Yrs.	Past Est'd '08-'10																													
		of change (per sh)	10 Yrs.	5 Yrs.	to '14-'16																												
		Revenues	6.5%	5.5%	.5%																												
		"Cash Flow"	6.0%	3.5%	2.0%																												
		Earnings	2.0%	-1.5%	5.5%																												
		Dividends	5.0%	5.5%	3.5%																												
		Book Value	6.0%	6.5%	5.5%																												
QUARTERLY REVENUES (\$ mill.)																																	
		Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year																										
		2008	41.3	60.0	69.5	49.5	220.3																										
		2009	40.0	58.2	69.3	48.6	216.1																										
		2010	40.4	54.1	70.3	50.8	215.6																										
		2011	43.7	58.0	75.0	53.3	230																										
		2012	47.0	63.0	82.0	58.0	250																										
EARNINGS PER SHARE																																	
		Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year																										
		2008	.15	.34	.44	.15	1.08																										
		2009	.01	.23	.43	.14	.81																										
		2010	.05	.24	.44	.11	.84																										
		2011	.03	.26	.48	.13	.90																										
		2012	.05	.29	.51	.15	1.00																										
QUARTERLY DIVIDENDS PAID																																	
		Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year																										
		2007	.15	.15	.15	.15	.60																										
		2008	.16	.16	.16	.16	.64																										
		2009	.165	.165	.165	.165	.66																										
		2010	.17	.17	.17	.17	.68																										
		2011	.173	.173																													
(A) Diluted earnings. Excludes nonrecurring losses: '03, \$1.97; '04, \$3.78; '05, \$1.09; '06, \$16.36; '08, \$1.22; '10, 46¢. Next earnings report due Oct. Quarterly egs. may not add due to rounding.																																	
(B) Dividends historically paid in early March, June, September, and December. ■ Div'd reinvestment plan available.																																	
(C) In millions.																																	
Company's Financial Strength																		B+															
Stock's Price Stability																		70															
Price Growth Persistence																		85															
Earnings Predictability																		85															

YORK WATER CO NDQ--YORW				RECENT PRICE	17.36	TRAILING P/E RATIO	23.8	RELATIVE P/E RATIO	1.35	DIV'D YLD	3.0%	VALUE LINE	
RANKS		13.49 9.33	14.03 11.00	17.87 11.67	20.99 15.33	18.55 15.45	16.50 6.23	17.95 9.74	18.00 12.83	17.72 15.81		High Low	
PERFORMANCE	3	<div>LEGENDS</div> <div>— 12 Mos Mov Avg</div> <div>... Rel Price Strength</div> <div>2-for-1 split 5/02</div> <div>3-for-2 split 9/06</div> <div>Shaded area indicates recession</div> 											
Technical	3												Average
SAFETY	2												Average
BETA	.70												(1.00 = Market)
Financial Strength	B++												
Price Stability	90												
Price Growth Persistence	60												
Earnings Predictability	100												
© VALUE LINE PUBLISHING LLC		2003	2004	2005	2006	2007	2008	2009	2010	2011	2012/2013		
REVENUES PER SH		2.17	2.18	2.58	2.56	2.79	2.89	2.95	3.07	--			
"CASH FLOW" PER SH		.65	.65	.79	.77	.86	.88	.95	1.07	--			
EARNINGS PER SH		.47	.49	.56	.58	.57	.57	.64	.71	.76 ^{A,B}	.80 ^C /NA		
DIV'D DECL'D PER SH		.37	.39	.42	.45	.48	.49	.51	.52	--			
CAP'L SPENDING PER SH		1.07	2.50	1.69	1.85	1.69	2.17	1.18	.83	--			
BOOK VALUE PER SH		4.06	4.65	4.85	5.84	5.97	6.14	6.92	7.19	--			
COMMON SHS OUTST'G (MILL)		9.63	10.33	10.40	11.20	11.27	11.37	12.56	12.69	--			
AVG ANN'L P/E RATIO		24.5	25.7	26.3	31.2	30.3	24.6	21.9	20.7	22.8	21.7/NA		
RELATIVE P/E RATIO		1.40	1.36	1.39	1.68	1.61	1.48	1.46	1.32	--			
AVG ANN'L DIV'D YIELD		3.2%	3.1%	2.9%	2.5%	2.8%	3.5%	3.6%	3.5%	--			
REVENUES (\$MILL)		20.9	22.5	26.8	28.7	31.4	32.8	37.0	39.0	--		Bold figures are consensus earnings estimates and, using the recent prices, P/E ratios.	
NET PROFIT (\$MILL)		4.4	4.8	5.8	6.1	6.4	6.4	7.5	8.9	--			
INCOME TAX RATE		34.8%	36.7%	36.7%	34.4%	36.5%	36.1%	37.9%	38.5%	--			
AFUDC % TO NET PROFIT		--	--	--	7.2%	3.6%	10.1%	--	1.2%	--			
LONG-TERM DEBT RATIO		43.4%	42.5%	44.1%	48.3%	46.5%	54.5%	45.7%	48.3%	--			
COMMON EQUITY RATIO		56.6%	57.5%	55.9%	51.7%	53.5%	45.5%	54.3%	51.7%	--			
TOTAL CAPITAL (\$MILL)		69.0	83.6	90.3	126.5	125.7	153.4	160.1	176.4	--			
NET PLANT (\$MILL)		116.5	140.0	155.3	174.4	191.6	211.4	222.0	228.4	--			
RETURN ON TOTAL CAP'L		8.5%	7.6%	8.4%	6.2%	6.7%	5.7%	6.2%	6.5%	--			
RETURN ON SHR. EQUITY		11.4%	10.0%	11.6%	9.3%	9.5%	9.2%	8.6%	9.8%	--			
RETURN ON COM EQUITY		11.4%	10.0%	11.6%	9.3%	9.5%	9.2%	8.6%	9.8%	--			
RETAINED TO COM EQ		2.6%	2.1%	3.0%	2.2%	1.7%	1.4%	1.9%	2.7%	--			
ALL DIV'DS TO NET PROF		77%	79%	74%	77%	82%	85%	78%	72%	--			

^ANo. of analysts changing earn. est. in last 9 days: 0 up, 0 down, consensus 5-year earnings growth 6.0% per year. ^BBased upon 4 analysts' estimates. ^CBased upon 4 analysts' estimates.

ANNUAL RATES						INDUSTRY: Water Utility			
of change (per share)		5 Yrs.	1 Yr.	ASSETS (\$mill.)		2009	2010	3/31/11	BUSINESS: The York Water Company engages in the impounding, purification, and distribution of water in York County and Adams County, Pennsylvania. The company supplies water for residential, commercial, industrial, and other customers. It has two reservoirs, Lake Williams, which is 700 feet long and 58 feet high, and creates a reservoir covering approximately 165 acres containing about 870 million gallons of water; and Lake Redman, which is 1,000 feet long and 52 feet high and creates a reservoir covering approximately 290 acres containing about 1.3 billion gallons of water. In addition, it possesses a 15-mile pipeline from the Susquehanna River to Lake Redman that provides access to an additional supply of water. As of December 31, 2010, York Water served approximately 182,000 residential, commercial, industrial, and other customers in 39 municipalities in York County and seven municipalities in Adams County. Has 110 employees. C.E.O. & President: Jeffrey R. Hines. Inc.: PA. Address: 130 East Market Street, York, PA 17401. Tel.: (717) 845-3601. Internet: http://www.yorkwater.com . <i>W.T.</i>
Revenues		5.0%	4.0%	Cash Assets		.0	1.3	2.7	
"Cash Flow"		7.0%	12.0%	Receivables		5.4	6.3	5.7	
Earnings		5.0%	11.0%	Inventory (Avg cost)		.7	.6	.6	
Dividends		5.0%	2.0%	Other		1.0	.6	1.1	
Book Value		8.5%	4.0%	Current Assets		7.1	8.8	10.1	
Fiscal Year		QUARTERLY SALES (\$mill.)	Full Year	Property, Plant & Equip, at cost		260.4	270.8	--	
		1Q 2Q 3Q 4Q		Accum Depreciation		38.4	42.4	--	
12/31/09		8.8 9.2 9.8 9.2	37.0	Net Property		222.0	228.4	228.9	
12/31/10		9.0 9.7 10.5 9.8	39.0	Other		19.7	22.7	22.7	
12/31/11		9.6		Total Assets		248.8	259.9	261.7	
12/31/12				LIABILITIES (\$mill.)					TOTAL SHAREHOLDER RETURN Dividends plus appreciation as of 6/30/2011
Fiscal Year		EARNINGS PER SHARE	Full Year	Accts Payable		1.4	1.2	1.1	
		1Q 2Q 3Q 4Q		Debt Due		9.3	.0	.1	
12/31/08		.11 .13 .15 .18	.57	Other		3.9	4.1	4.2	
12/31/09		.13 .17 .18 .16	.64	Current Liab		14.6	5.3	5.4	
12/31/10		.15 .18 .21 .17	.71	LONG-TERM DEBT AND EQUITY as of 3/31/11					
12/31/11		.17 .20 .22 .18		Total Debt \$85.2 mill.					
12/31/12				LT Debt \$85.0 mill.					
Cal-endar		QUARTERLY DIVIDENDS PAID	Full Year	Including Cap. Leases NA					
		1Q 2Q 3Q 4Q		(48% of Cap'l)					
2008		.121 .121 .121 .121	.48	Leases, Uncapitalized Annual rentals NA					
2009		.126 .126 .126 .126	.50	Pension Liability \$9.8 mill. in '10 vs. \$8.8 mill. in '09					
2010		.128 .128 .128 .128	.51	Pfd Stock None					
2011		.131 .131 .131		Pfd Div'd Paid None					
INSTITUTIONAL DECISIONS		3Q'10 4Q'10 1Q'11		Common Stock 12,715,000 shares					
to Buy		21 25 20		(52% of Cap'l)					
to Sell		18 16 21							
Hld's(000)		3078 3107 3080							

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DIVIDEND YIELDS

	American States	American Water Works	Aqua America	Artesian Resources	California Water	Connecticut Water Services	Middlesex Water	SJW	York Water
Spot	3.22%	2.59%	2.83%	4.13%	3.23%	3.58%	3.86%	2.85%	2.96%
Jan-June	3.16%	2.71%	2.76%	3.94%	3.35%	3.70%	4.00%	2.93%	3.11%
	<u>Average</u>								
	3.25%								
	3.30%								
	3.27%								

Source: Yahoo! Finance

CAP-M ANALYSIS

Summary of β

Company	Ticker	β
Amer. States Water	AWR	0.75
Amer. Water Works	AWK	0.65
Aqua America	WTR	0.65
Artesian Res Corp	ARTNA	0.60
California Water	CWT	0.70
Conn. Water Services	CTWS	0.80
Middlesex Water	MSEX	0.75
SJW Corp.	SJW	0.90
York Water Co	YORW	0.70
	Maximum	0.90
	Minimum	0.60
	Average	0.72

Calculation of Long-Run Average Return

	<u>Growth</u>
<u>Decile</u>	<u>Rate</u>
1	9.1
2	10.5
3	10.9
4	10.8
5	11.4
6	11.4
7	11.4
8	11.6
9	11.7
10	13.3
Average	11.2

CAP-M ANALYSIS

Calculation of CAP-M Cost of Equity

β	0.7222
R_m	0.1120
R_f	0.0500
$R_m - R_f$	0.0620
$(R_m - R_f)\beta$	0.0448
$R_f + [(R_m - R_f)\beta]$	0.0948
	9.48%

Sources:

β

Exhibit DHC-7

R_m

Ibbotson SBBI 2011 Classic Yearbook: Market Results for
Stock, Bonds, Bills, and Inflation, 1926-2010

R_f

Exhibit DHC-12

COMPARABLE EARNINGS METHOD: COMPANIES WITH β 's IN THE SAME RANGE AS PROXY GROUP'S

Company	Industry Name	Beta	Proj 3-5 Yr		Proj EPS		Proj Book		Proj Dividend		Proj Sales		Beta 5-		Book Value		EPS Growth	
			Dividend	Yield	Growth	Rate	Value	Growth	Growth	Rate	Growth	Rate	Year	Year	Growth	Year	10-Year	10-Year
Buckeye Partners L.P.	Pipeline MLPs	0.85	6.5	6.5	7.5	6.0	6.0	4.5	6.5	0.25	6.5	0.25	6.5	6.5	3.0	3.0		
Chemed Corp.	Diversified Co.	0.80	1.0	1.0	11.5	11.0	11.0	16.0	9.5	0.26	9.5	0.26	6.5	6.5	12.5	12.5		
Archer Daniels Midl'd	Food Processing	0.90	1.1	1.1	8.0	10.5	10.5	7.0	4.0	0.28	4.0	0.28	8.5	8.5	19.5	19.5		
Abbott Labs.	Drug	0.60	2.3	2.3	8.5	7.0	7.0	5.5	6.5	0.31	6.5	0.31	11.0	11.0	8.0	8.0		
Kinder Morgan Energy	Pipeline MLPs	0.75	7.2	7.2	8.0	4.5	4.5	5.0	3.5	0.32	3.5	0.32	4.0	4.0	3.0	3.0		
Bard (C.R.)	Med Supp Invasive	0.60	0.6	0.6	9.0	11.5	11.5	5.5	6.5	0.33	6.5	0.33	13.5	13.5	16.5	16.5		
Wal-Mart Stores	Retail Store	0.60	2.6	2.6	8.5	5.0	5.0	13.0	9.0	0.33	9.0	0.33	12.0	12.0	12.0	12.0		
Hershey Co.	Food Processing	0.65	2.6	2.6	10.5	26.0	26.0	5.0	5.5	0.33	5.5	0.33	-3.5	-3.5	7.0	7.0		
Annaly Capital Mgmt.	R.E.I.T.	0.70	11.1	11.1	-3.5	0.5	0.5	-3.0	n/a	0.34	n/a	0.34	5.0	5.0	8.0	8.0		
Newmont Mining	Precious Metals	0.85	1.8	1.8	-3.5	11.0	11.0	15.0	1.5	0.35	1.5	0.35	9.5	9.5	28.0	28.0		
Village Super Market	Retail/Wholesale Food	0.75	1.5	1.5	1.0	8.0	8.0	-12.0	3.0	0.36	3.0	0.36	9.5	9.5	14.0	14.0		
Kroger Co.	Retail/Wholesale Food	0.60	1.6	1.6	8.0	9.5	9.5	11.0	7.0	0.38	7.0	0.38	14.5	14.5	4.5	4.5		
Hot Topic, Inc.	Retail (Softlines)	0.75	2.7	2.7	18.5	-3.0	-3.0	20.0	2.0	0.38	2.0	0.38	13.5	13.5	-5.0	-5.0		
Lancaster Colony	Household Products	0.75	2.6	2.6	9.0	12.0	12.0	8.0	6.0	0.40	6.0	0.40	3.5	3.5	2.5	2.5		
Shenandoah Telecom.	Telecom. Services	0.80	1.5	1.5	7.0	7.5	7.5	6.0	9.5	0.40	9.5	0.40	10.0	10.0	9.0	9.0		
Church & Dwight	Household Products	0.60	1.4	1.4	10.5	9.5	9.5	20.5	4.0	0.42	4.0	0.42	19.5	19.5	17.5	17.5		
Hormel Foods	Food Processing	0.60	2.0	2.0	10.0	10.5	10.5	12.5	4.5	0.43	4.5	0.43	10.5	10.5	9.5	9.5		
McCormick & Co.	Food Processing	0.60	1.6	1.6	11.0	15.0	15.0	7.0	6.0	0.43	6.0	0.43	14.0	14.0	11.0	11.0		
Plains All Amer. Pipe.	Pipeline MLPs	0.85	6.8	6.8	4.0	4.5	4.5	3.5	2.0	0.43	2.0	0.43	17.5	17.5				
Owens & Minor	Med Supp Non-Invasive	0.65	2.5	2.5	11.0	8.5	8.5	12.0	5.0	0.44	5.0	0.44	12.5	12.5	12.5	12.5		
Suburban Propane	Pipeline MLPs	0.75	6.5	6.5	1.0	10.5	10.5	2.5	-1.5	0.46	-1.5	0.46	7.0	7.0	12.0	12.0		
McDonald's Corp.	Restaurant	0.65	3.1	3.1	8.0	5.0	5.0	8.5	7.0	0.48	7.0	0.48	6.5	6.5	11.5	11.5		
Exxon Mobil Corp.	Petroleum (Integrated)	0.75	2.0	2.0	9.5	13.5	13.5	8.0	10.0	0.49	10.0	0.49	10.5	10.5	14.5	14.5		
Rollins, Inc.	Industrial Services	0.80	1.5	1.5	14.5	11.5	11.5	14.5	8.0	0.49	8.0	0.49	13.5	13.5	28.5	28.5		
Advance Auto Parts	Retail Automotive	0.85	0.5	0.5	14.5	15.0	15.0	16.5	9.0	0.49	9.0	0.49	21.0	21.0	32.5	32.5		

COMPARABLE EARNINGS METHOD: COMPANIES WITH β 's IN THE SAME RANGE AS PROXY GROUP'S

Company	Industry Name	Proj 3-5 Yr		Proj EPS		Proj Book Value		Proj Dividend		Proj Sales		Beta 5-		Book Value		EPS Growth	
		Beta	Dividend	Yield	Growth	Rate	Value	Growth	Rate	Growth	Rate	Year	Year	Growth	Year	10-Year	10-Year
Sanderson Farms	Food Processing	0.70		1.3	18.5	11.0	11.0	7.5	5.0	0.50	14.0	23.5					
DeVry Inc.	Educational Services	0.60		0.3	16.5	16.5	16.5	14.5	13.5	0.51	18.0	16.5					
Strayer Education	Educational Services	0.60		1.4	9.0	8.5	8.5	13.0	10.5	0.51	9.0	20.0					
Quest Diagnostics	Medical Services	0.70		0.6	9.0	12.0	12.0	8.0	6.5	0.51	15.5	26.5					
Procter & Gamble	Household Products	0.60		3.0	8.0	6.0	6.0	10.5	6.0	0.52	18.5	10.0					
Baxter Int'l Inc.	Med Supp Invasive	0.65		1.9	9.5	13.5	13.5	7.0	8.0	0.53	8.0	10.5					
Snyder's-Lance	Food Processing	0.65		2.7	14.0	11.0	11.0	4.0	4.0	0.54	4.5	1.0					
PepsiCo, Inc.	Beverage	0.60		1.9	10.0	17.0	17.0	6.0	9.5	0.55	8.5	11.0					
Casey's Gen'l Stores	Retail/Wholesale Food	0.70		1.2	14.5	9.5	9.5	16.5	15.0	0.55	10.0	10.5					
Enterprise Products	Pipeline MLPs	0.85		5.3	9.5	5.0	5.0	8.0	5.0	0.55	10.5	8.0					
Pharmac. Product	Drug	0.85		2.2	12.5	6.0	6.0	7.0	5.0	0.56	18.5	17.0					
Becton, Dickinson	Med Supp Invasive	0.65		2.1	8.0	9.0	9.0	11.5	7.5	0.57	12.0	13.0					
Kraft Foods	Food Processing	0.65		2.9	8.5	9.5	9.5	6.0	3.0	0.59	6.5	5.0					
Nash Finch Co.	Retail/Wholesale Food	0.70		2.1	7.0	9.5	9.5	8.0	2.5	0.59	6.5	12.5					
Coca-Cola	Beverage	0.60		2.4	10.0	11.0	11.0	9.5	10.5	0.60	11.5	8.5					
Johnson & Johnson	Med Supp Non-Invasive	0.65		3.0	5.0	12.0	12.0	7.0	3.5	0.60	12.0	12.0					
Matthews Int'l	Funeral Services	0.85		0.7	7.5	10.5	10.5	9.0	5.0	0.60	16.0	11.5					
TJX Companies	Retail (Softlines)	0.80		1.1	14.0	13.5	13.5	12.0	9.5	0.61	13.0	13.0					
Knight Transportation	Trucking	0.85		1.3	14.5	7.0	7.0	14.5	8.0	0.61	18.0	12.5					
Werner Enterprises	Trucking	0.90		0.8	17.0	9.5	9.5	6.0	6.5	0.61	4.5	3.0					
Heartland Express	Trucking	0.80		0.7	14.0	10.5	10.5	14.5	8.5	0.62	8.0	8.5					
Lincare Holdings	Medical Services	0.65		1.7	12.0	8.0	8.0	35.0	9.0	0.63	11.5	11.5					
Bristol-Myers Squibb	Drug	0.75		4.4	8.0	6.5	6.5	3.5	4.5	0.63	6.5	-1.5					
Healthcare Svcs.	Industrial Services	0.75		3.6	14.0	2.5	2.5	7.0	9.5	0.63	8.0	14.5					
Waste Management	Environmental	0.80		3.4	7.0	4.0	4.0	6.5	5.5	0.63	5.5	2.5					

COMPARABLE EARNINGS METHOD: COMPANIES WITH β 's IN THE SAME RANGE AS PROXY GROUP'S

Company	Industry Name	Beta	Proj 3-5 Yr		Proj EPS		Proj Book Value		Proj Dividend		Proj Sales		Beta 5-		Book Value		EPS Growth	
			Dividend	Yield	Growth	Rate	Growth	Rate	Growth	Rate	Growth	Rate	Year	Year	Growth	Year	10-Year	10-Year
Sherwin-Williams	Retail Building Supply	0.70	2.0		11.0		15.0		7.5		8.0		0.64		3.5		8.5	
Tootsie Roll Ind.	Food Processing	0.70	1.1		5.0		4.5		1.0		3.5		0.64		6.0		-2.5	
Verizon Communic.	Telecom. Services	0.70	3.7		5.5		5.0		2.0		3.0		0.64		3.0		-2.0	
Waste Connections	Environmental	0.75	1.6		15.0		6.0		74.5		13.0		0.64		14.5		17.0	
Automatic Data Proc.	IT Services	0.75	2.0		7.5		11.5		5.5		6.0		0.66		5.0		7.5	
WD-40 Co.	Household Products	0.75	2.5		9.5		10.0		4.0		6.0		0.66		11.5		2.0	
Meridian Bioscience	Med Supp Non-Invasive	0.85	3.4		10.5		5.0		7.5		9.5		0.67		12.0		15.0	
Raytheon Co.	Aerospace/Defense	0.70	3.1		5.5		8.5		11.5		5.5		0.68		-2.5		8.5	
Smucker (J.M.)	Food Processing	0.70	2.0		9.5		6.5		7.0		9.0		0.68		15.0		13.0	
Weis Markets	Retail/Wholesale Food	0.65	2.6		6.5		5.5		2.0		3.0		0.69		1.5		2.0	
Pfizer, Inc.	Drug	0.75	4.1		10.5		1.5		3.0		3.5		0.70		15.5		3.0	
Technic Corp.	Biotechnology	0.75	1.1		7.5		10.0		13.0		9.5		0.70		18.0		19.5	
Ecolab Inc.	Chemical (Specialty)	0.80	1.3		12.5		9.5		9.0		7.0		0.70		11.0		12.0	
MAXIMUS Inc.	Industrial Services	0.80	0.9		18.0		3.5		15.5		13.0		0.70		8.5		8.0	
AmerisourceBergen	Med Supp Non-Invasive	0.70	0.7		10.5		13.0		15.5		4.5		0.71		27.5		16.0	
Henry (Jack) & Assoc.	IT Services	0.85	1.3		12.5		14.0		10.5		11.5		0.71		18.5		13.0	
Brown-Forman 'B'	Beverage	0.70	1.9		8.0		11.5		5.0		6.0		0.72		8.0		9.5	
Sysco Corp.	Retail/Wholesale Food	0.75	3.0		7.5		10.5		4.5		7.0		0.72		10.0		12.5	
Ross Stores	Retail (Softlines)	0.80	1.4		18.0		16.5		19.0		13.5		0.72		14.0		15.5	
STERIS Corp.	Med Supp Invasive	0.90	1.3		6.5		6.5		13.0		3.5		0.72		7.5		8.0	
ConAgra Foods	Food Processing	0.65	3.1		9.5		6.0		6.0		5.0		0.73		6.0		-0.5	
Ruddick Corp.	Retail/Wholesale Food	0.65	1.4		8.5		9.5		4.0		6.5		0.73		6.0		7.0	
Int'l Business Mach.	Computers/Peripherals	0.85	1.8		12.0		18.5		12.5		9.0		0.73		3.5		10.5	
Costco Wholesale	Retail Store	0.75	1.1		9.0		6.5		8.0		9.0		0.75		11.0		9.0	
McKesson Corp.	Med Supp Non-Invasive	0.75	1.2		8.0		12.0		13.5		4.5		0.75		9.0		15.5	

COMPARABLE EARNINGS METHOD: COMPANIES WITH β 's IN THE SAME RANGE AS PROXY GROUP'S

Company	Industry Name	Proj 3-5 Yr		Proj EPS		Proj Book Value		Proj Dividend		Proj Sales		Beta 5-		Book Value	
		Beta	Dividend	Yield	Growth	Rate	Growth	Rate	Growth	Rate	Growth	Year	Year	Growth 10-	EPS Growth 10-Year
Chevron Corp.	Petroleum (Integrated)	0.90	2.4		10.0	8.0	4.0	8.5	0.75	13.0	15.0				
J&J Snack Foods	Food Processing	0.70	1.0		10.5	8.0	8.5	5.5	0.76	10.0	12.5				
Bemis Co.	Packaging & Container	0.90	2.0		14.0	8.5	3.0	8.0	0.76	8.5	4.0				
Genuine Parts	Auto Parts	0.80	3.4		9.5	7.5	8.5	6.0	0.77	3.0	3.0				
PetSmart, Inc.	Retail (Hardlines)	0.80	1.2		12.0	11.0	12.5	7.0	0.78	13.0	67.0				
Telephone & Data	Telecom. Services	0.85	0.8		10.0	2.5	3.5	1.5	0.78	4.0	9.0				
Home Depot	Retail Building Supply	0.90	2.5		9.5	8.0	5.5	5.0	0.78	8.0	7.0				
CVS Caremark Corp.	Pharmacy Services	0.80	1.5		8.0	7.5	22.0	7.5	0.79	19.5	13.0				
C.H. Robinson	Industrial Services	0.90	1.5		10.5	9.5	8.0	12.0	0.79	17.0	20.5				
United Parcel Serv.	Air Transport	0.85	1.9		11.0	17.5	3.5	5.0	0.81	5.0	8.5				
3M Company	Diversified Co.	0.80	2.5		12.0	16.5	10.0	10.5	0.82	8.5	9.0				
West Pharmac. Svcs.	Med Supp Non-Invasive	0.80	1.3		12.5	12.0	4.5	8.0	0.82	8.5	8.5				
Fred's Inc. 'A'	Retail Store	0.85	1.6		18.0	7.0	23.0	6.0	0.83	9.0	5.0				
Wiley (John) & Sons	Publishing	0.90	0.8		12.0	16.0	7.0	4.0	0.83	15.5	14.0				
Perrigo Co.	Drug	0.70	0.3		17.5	13.5	10.0	9.5	0.84	8.5	22.5				
Sara Lee Corp.	Food Processing	0.80	2.8		7.5	-30.5	5.5	2.0	0.85	8.5	-2.5				
Teleflex Inc.	Diversified Co.	0.80	1.7		8.5	10.0	5.0	1.0	0.86	9.0	4.5				
Paychex, Inc.	IT Services	0.85	2.7		4.5	9.0	1.5	4.5	0.86	12.0	14.0				
Sensient Techn.	Food Processing	0.85	1.8		11.0	9.5	4.5	8.5	0.88	8.5	3.0				
AptarGroup	Packaging & Container	0.90	1.1		10.5	10.0	4.5	7.5	0.88	12.0	10.0				
CLARCOR Inc.	Packaging & Container	0.90	0.8		12.5	11.5	5.5	8.0	0.89	12.5	10.0				
Hasbro, Inc.	Recreation	0.75	2.1		8.5	5.0	8.5	5.5	0.90	2.0	12.0				
Corporate Executive	Information Services	0.90	2.3		14.0	34.5	0.5	8.5	0.90	9.5	13.5				

COMPARABLE EARNINGS METHOD: COMPANIES WITH β 's IN THE SAME RANGE AS PROXY GROUP'S

<u>Company</u>	<u>Industry Name</u>	<u>Beta</u>	<u>Proj 3-5 Yr</u>		<u>Proj EPS</u>		<u>Proj Book</u>		<u>Proj</u>		<u>Proj Sales</u>		<u>Beta 5-</u>		<u>Book Value</u>	
			<u>Dividend</u>	<u>Yield</u>	<u>Growth</u>	<u>Rate</u>	<u>Value</u>	<u>Growth</u>	<u>Dividend</u>	<u>Growth</u>	<u>Rate</u>	<u>Growth</u>	<u>Year</u>	<u>Year</u>	<u>Growth 10-</u>	<u>EPS Growth</u>
L-3 Communic.	Aerospace/Defense	0.90		1.9	6.5		11.5		11.0		5.5		0.90		21.0	23.5
Patterson Cos.	Med Supp Non-Invasive	0.90		1.7	9.0		9.0		57.5		7.0		0.90		17.5	16.0
Averages		0.757	2.198		9.930		9.285		9.760		6.631		0.621		10.380	11.343

100 =number of companies

Averages by β Ranges

.59> β <.7	0.625	2.113	9.583	10.438	9.854	6.688	0.508	10.167	9.896
.69> β <.8	0.727	2.623	9.048	8.242	9.081	6.150	0.611	9.323	10.290
.79> β <.91	0.847	1.951	10.722	9.389	10.178	6.922	0.687	11.222	12.875
Average of β Groups	0.733	2.229	9.785	9.356	9.704	6.587	0.602	10.237	11.020

Weightings by β Ranges

.59> β <.7 Companies * 0.3333	0.208	0.704	3.194	3.479	3.285	2.229	0.169	3.389	3.299
.69> β <.8 Companies * .4445	0.323	1.166	4.022	3.664	4.036	2.734	0.272	4.144	4.574
.79> β <.91 Companies * .2222	0.188	0.434	2.383	2.086	2.262	1.538	0.153	2.494	2.861
Average, Weighted by β Proportions of Proxy Group	0.720	2.303	9.599	9.229	9.583	6.501	0.594	10.027	10.734

Source: ValueLine screener

COMPARABLE EARNINGS METHOD: COMPANIES WITH β 's IN THE SAME RANGE AS PROXY GROUP'S

<u>Company</u>	<u>Industry Name</u>	<u>Beta</u>	<u>Proj 3-5 Yr</u>		<u>Proj EPS</u>		<u>Proj Book Value</u>		<u>Proj Dividend</u>		<u>Proj Sales</u>		<u>Beta 5-</u>		<u>Book Value</u>	
			<u>Dividend</u>	<u>Yield</u>	<u>Growth</u>	<u>Rate</u>	<u>Growth</u>	<u>Rate</u>	<u>Growth</u>	<u>Rate</u>	<u>Growth</u>	<u>Rate</u>	<u>Year</u>	<u>Year</u>	<u>Growth 10-</u>	<u>EPS Growth 10-Year</u>
Allergan, Inc.	Drug	0.90	0.3		11.5		13		7		6		0.91		18.5	16.0
AVX Corp.	Electronics	0.90	1.4		12.5		9.5		6.5		5.5		0.91		7.5	2.0
Cintas Corp.	Industrial Services	0.90	1.3		6.5		8		3.5		5.5		0.91		11.5	6.5
Xilinx Inc.	Semiconductor	0.90	1.9		12.5		9.5		9		9.5		0.91		7	9.5
Int'l Flavors & Frag.	Chemical (Specialty)	0.80	1.5		9		12.5		4.5		4		0.92		2	5.5
Stryker Corp.	Med Supp Invasive	0.80	0.7		11.5		11		13		8.5		0.92		24	21.0
Medtronic, Inc.	Med Supp Invasive	0.85	1.7		6.5		13.5		10.5		5		0.92		14.5	14.0
NIKE, Inc. 'B'	Shoe	0.85	1.4		12.5		10		8		8.5		0.92		12.5	15.0
EarthLink, Inc.	Internet	0.65	1		-3.5		9		-6.5		10.5		0.93		7	[1]
NTELOS Hldgs.	Telecom. Services	0.85	4.8		8.5		3.5		6		6		0.93		[2]	[2]
Aaron's Inc.	Retail Store	0.85	0.3		9.5		8.5		11.5		5.5		0.94		14	12.5
Qualcomm Inc.	Telecom. Equipment	0.85	1.3		12		13.5		7		10.5		0.95		18	20.0
CA, Inc.	Computer Software	0.90	0.6		8.5		13		6		5		0.95		1.5	-6.5
Washington Post	Newspaper	0.80	1.2		12		7		4		6		0.96		7.5	1.0
Universal Corp.	Tobacco	0.85	3.3		2.5		9		1.5		3.5		0.96		8.5	3.0
W.P. Carey & Co. LLC	Property Management	0.85	5.5		8.5		3		3		8.5		0.96		-1.5	4.0
Lockheed Martin	Aerospace/Defense	0.80	3.8		6.5		19		12.5		6.5		0.97		-5	15.0
Mattel, Inc.	Recreation	0.85	2.5		10		9		5		4.5		0.98		4	6.5
MTS Systems	Precision Instrument	0.90	1.7		12.5		10.5		6.5		7.5		0.98		4.5	10.0
Walgreen Co.	Pharmacy Services	0.75	2.1		11.5		6		20.5		9		0.99		16	15.0
Diebold, Inc.	Office Equip/Supplies	0.85	2.6		8		5		4.5		4.5		0.99		2.5	1.5
Analog Devices	Semiconductor	0.90	1.6		14		11.5		7		9		1.03		6.5	7.5
Microsoft Corp.	Computer Software	0.80	2.5		12.5		16.5		16.5		11		1.04		5	11.0

COMPARABLE EARNINGS METHOD: COMPANIES WITH β 's IN THE SAME RANGE AS PROXY GROUP'S

<u>Company</u>	<u>Industry Name</u>	<u>Proj 3-5 Yr</u>		<u>Proj EPS</u>		<u>Proj Book</u>		<u>Proj</u>		<u>Proj Sales</u>		<u>Beta 5-</u>		<u>Book Value</u>		<u>EPS Growth</u>
		<u>Dividend</u>	<u>Yield</u>	<u>Growth</u>	<u>Rate</u>	<u>Value</u>	<u>Growth</u>	<u>Dividend</u>	<u>Growth</u>	<u>Growth</u>	<u>Rate</u>	<u>Year</u>	<u>Year</u>	<u>Growth 10-</u>	<u>Year</u>	
		<u>Beta</u>														<u>10-Year</u>
Dentsply Int'l	Med Supp Invasive	0.90	0.5	7		10			7.5		6.5	1.04	15		12.5	
Wolverine World Wide	Shoe	0.85	1.4	12		15.5			10		9	1.06	6.5		11.5	
Northrop Grumman	Aerospace/Defense	0.80	2.1	8		10.5			6.5		3	1.07	5.5		4.5	
G&K Services 'A'	Industrial Services	0.85	1.2	7.5		4.5			11.5		4	1.07	8.5		0.5	
Equifax, Inc.	Information Services	0.90	0.9	9		14			23		6	1.07	18		4.5	
Texas Instruments	Semiconductor	0.90	1.1	11		17			6.5		7.5	1.07	3.5		7.5	
Int'l Speedway 'A'	Recreation	0.90	0.4	3.5		6			8		1.5	1.08	8.5		9.5	
Universal Health Sv. 'B'	Medical Services	0.85	0.5	16.5		14.5			16.5		9.5	1.1	13		13.0	
Cooper Cos.	Med Supp Non-Invasive	0.90	0.1	20		8.5			12		9.5	1.11	19		6.0	
UniFirst Corp.	Industrial Services	0.85	0.4	6		9			9		3.5	1.14	9.5		10.5	
ADTRAN, Inc.	Telecom. Equipment	0.85	0.7	15.5		18			3.5		12.5	1.15	6		7.5	
SUPERVALU INC.	Retail/Wholesale Food	0.85	1.9	5.5		3.5			-5	[4]		1.18	-1.5		-0.5	
National Instruments	Precision Instrument	0.90	1.3	16		6.5			8.5		9.5	1.18	10		5.5	
ABM Industries Inc.	Industrial Services	0.90	1.4	12		7.5			3.5		6	1.19	8		4.5	
Imation Corp.	Computers/Peripherals	0.90	1	10		-1.5			-10		-3	1.28	2		-11.0	

COMPARABLE EARNINGS METHOD: COMPANIES WITH β 's IN THE SAME RANGE AS PROXY GROUP'S

Company	Industry Name	Beta	Proj 3-5 Yr		Proj EPS		Proj Book Value		Proj Dividend		Proj Sales		Book Value	
			Dividend	Yield	Growth	Rate	Growth	Rate	Growth	Rate	Growth	Rate	Growth	Rate
Sealed Air	Packaging & Container	0.85	1.7	13	10	5	4.5	1.39	15	3.5				
Arbitron Inc.	Information Services	0.90	0.8	16	51	6	7	1.59	[3]	-0.5				
Averages:		0.86	1.56	10.10	10.888	7.23	6.58	1.04	8.750	7.34				

40 =number of companies

Averages by β Ranges

.59> β <.7	0.650	1.000	-3.500	9.000	-6.500	10.500	0.930	7.000	0.000
.69> β <.8	0.727	2.623	9.048	8.242	9.081	6.150	0.611	9.323	10.290
.79> β <.91	0.847	1.951	10.722	9.389	10.178	6.922	0.687	11.222	12.875
Average of β Groups	0.741	1.858	5.424	8.877	4.253	7.857	0.743	9.182	7.722

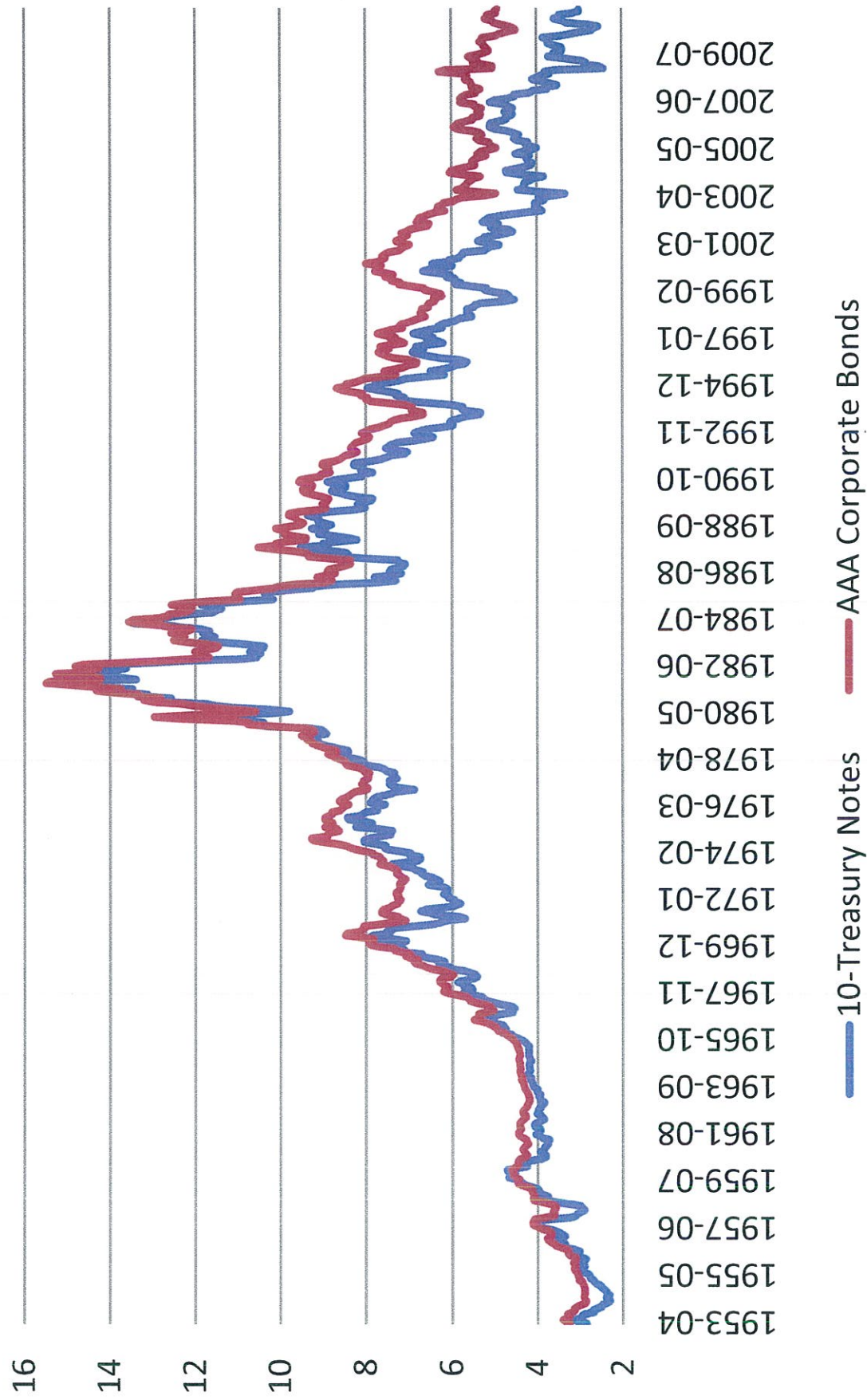
Weightings by β Ranges

.59> β <.7 Companies * 0.3333	0.217	0.333	-1.167	3.000	-2.167	3.500	0.310	2.333	0.000
.69> β <.8 Companies * .4445	0.323	1.166	4.022	3.664	4.036	2.734	0.272	4.144	4.574
.79> β <.91 Companies * .2222	0.188	0.434	2.383	2.086	2.262	1.538	0.153	2.494	2.861
Average, Weighted by β Proportions of Proxy Group	0.728	1.933	5.238	8.750	4.131	7.772	0.734	8.971	7.435

Notes:

- [1] Earthlink was not formed until 2000, so 10-yr EPS not available; also some years negative
- [2] NTELOS' IPS not until 2006
- [3] Arbitron not in its present form until spin-off of ComData, in 2001
- [4] No explanation for omission of sales data; C.A.G.R. computed for 2010 to 2015 is 1.78%

Treasury Notes vs. AAA Corporate Bonds



2 ■ BLUE CHIP FINANCIAL FORECASTS ■ AUGUST 1, 2011

Consensus Forecasts Of U.S. Interest Rates And Key Assumptions¹

	History								Consensus Forecasts-Quarterly Avg.							
	Average For Week Ending				Average For Month				Latest Q	3Q 2011	4Q 2011	1Q 2012	2Q 2012	3Q 2012	4Q 2012	
	July 22	July 15	July 8	July 1	Jun	May	Apr.	2Q 2011								
Interest Rates																
Federal Funds Rate	0.06	0.07	0.08	0.08	0.09	0.09	0.10	0.09	0.1	0.2	0.3	0.4	0.7	1.1		
Prime Rate	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.3	3.3	3.3	3.4	3.8	4.1		
LIBOR, 3-mo.	0.25	0.25	0.25	0.25	0.29	0.26	0.28	0.28	0.3	0.4	0.5	0.7	1.0	1.3		
Commercial Paper, 1-mo.	0.09	0.09	0.10	0.08	0.11	0.11	0.14	0.12	0.2	0.2	0.3	0.5	0.9	1.2		
Treasury bill, 3-mo.	0.02	0.02	0.02	0.02	0.04	0.04	0.06	0.05	0.1	0.1	0.3	0.4	0.8	1.1		
Treasury bill, 6-mo.	0.06	0.06	0.07	0.10	0.10	0.09	0.12	0.10	0.1	0.2	0.4	0.6	0.9	1.3		
Treasury bill, 1 yr.	0.16	0.16	0.19	0.19	0.18	0.19	0.25	0.21	0.2	0.4	0.5	0.8	1.1	1.5		
Treasury note, 2 yr.	0.38	0.37	0.44	0.46	0.41	0.56	0.73	0.57	0.5	0.7	1.0	1.3	1.6	2.0		
Treasury note, 5 yr.	1.47	1.48	1.67	1.67	1.58	1.84	2.17	1.86	1.7	2.0	2.2	2.4	2.7	2.9		
Treasury note, 10 yr.	2.95	2.94	3.12	3.11	3.00	3.17	3.46	3.21	3.1	3.3	3.5	3.7	3.9	4.1		
Treasury note, 30 yr.	4.25	4.21	4.35	4.36	4.23	4.29	4.50	4.34	4.3	4.5	4.6	4.7	4.9	5.0		
Corporate Aaa bond	4.91	4.89	5.07	5.11	4.99	4.96	5.16	5.04	5.0	5.1	5.2	5.3	5.5	5.6		
Corporate Baa bond	5.74	5.71	5.84	5.88	5.75	5.78	6.02	5.85	5.8	5.9	6.1	6.2	6.3	6.5		
State & Local bonds	4.46	4.51	4.65	4.59	4.51	4.59	4.99	4.70	4.6	4.7	4.8	5.0	5.1	5.2		
Home mortgage rate	4.52	4.51	4.60	4.51	4.51	4.64	4.84	4.66	4.6	4.8	5.0	5.2	5.4	5.6		
	History								Consensus Forecasts-Quarterly							
	3Q 2009	4Q 2009	1Q 2010	2Q 2010	3Q 2010	4Q 2011	1Q 2011	2Q*	3Q 2011	4Q 2011	1Q 2012	2Q 2012	3Q 2012	4Q 2012		
Key Assumptions	2009	2009	2010	2010	2010	2011	2011	2011	2011	2011	2012	2012	2012	2012		
Major Currency Index	76.4	72.8	74.8	77.6	75.9	73.0	71.9	69.8	69.8	70.0	70.4	70.9	71.3	71.5		
Real GDP	1.6	5.0	3.7	1.7	2.6	3.1	1.9	1.8	2.9	3.1	2.8	3.0	3.1	3.2		
GDP Price Index	0.7	-0.2	1.0	1.9	2.1	0.4	2.0	2.3	1.9	1.7	2.0	2.0	2.0	2.0		
Consumer Price Index	3.7	2.7	1.3	-0.5	1.4	2.6	5.2	4.1	2.1	2.1	2.3	2.2	2.3	2.3		

Forecasts for interest rates and the Federal Reserve's Major Currency Index represent averages for the quarter. Forecasts for Real GDP, GDP Price Index and Consumer Price Index are seasonally-adjusted annual rates of change (saar). Individual panel members' forecasts are on pages 4 through 9. Historical data for interest rates except LIBOR is from Federal Reserve Release (FRSR) H.15. LIBOR quotes available from *The Wall Street Journal*. Interest rate definitions are the same as those in FRSR H.15. Treasury yields are reported on a constant maturity basis. Historical data for the Fed's Major Currency Index is from FRSR H.10 and G.5. Historical data for Real GDP and GDP Chained Price Index are from the Bureau of Economic Analysis (BEA). Consumer Price Index (CPI) history is from the Department of Labor's Bureau of Labor Statistics (BLS). Figures for 2Q 2011 Real GDP and the GDP Chained Price Index are based on a special question asked of the panelists this month (see page 14).

